The Carphone Warehouse Group PLC
Annual Report 2007

Delivering value to customers and shareholders

Revenue
£3,991.5m
2006: £3,046.4m

Headline profit before tax*
£123.1m
2006: £136.1m

Dividend per share
3.25p
2006: 2.50p

*Headline information is shown before amortisation of acquisition intangibles and goodwill expense, and before reorganisation costs. A full reconciliation between Headline and statutory information, together with an explanation of different terms used within the Annual Report is provided in note 10 to the financial statements.

The Carphone Warehouse
your phone, your way

Summary 2006/7

- Continued strong growth in Distribution
- Connections up 22.3%
- 366 new stores opened
- Launch of Free Broadband
- Acquisition of AOL UK customer base
- Number 3 in UK residential telecoms
- Major telecoms infrastructure roll-out

Find out more about our business at
www.cpwplc.com

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Headline Financial Highlights

Revenue
£3,991.5m
2006: £3,046.4m

Revenue up 31.0% driven by strong connections growth in Distribution, the launch of Free Broadband and a full year of Onetel, and the acquisition of AOL's UK customer base.

EBITDA
£294.0m
2006: £242.5m

EBITDA up 21.2% despite significant revenue investment in Free Broadband. EBITDA margin 7.4%.

Profit before tax
£123.1m
2006: £136.1m

Headline profit before tax fell 9.5% after losses of £80.5m from Free Broadband and our Virgin Mobile France joint venture.

Earnings per share
11.82p
2006: 12.38p

Headline EPS fell 4.5% as a result of lower pre-tax profits, which was partly offset by a fall in the effective tax rate to 14.3%.

Highlights and Strategy

Business Review

Governance

Financial Statements

Group Overview

Distribution division:

Comprises our Retail operations and other directly related business streams

Revenue

£2,117.5m

2006: £1,753.5m

Our Markets

UK, Belgium, France, Germany, Ireland, Netherlands, Portugal, Spain, Sweden, Switzerland

Headline EBIT	Connections	Stores
£141.4m	10.0m	2,144
2006: £115.5m	2006: 8.2m	2006: 1,778

Retail and Online

Description and Key Assets Provision of mobile handsets and connections, accessories, and related products and services through 2,144 stores, call centres and the web across 10 European countries

Strategy To grow our market share through physical expansion and increased productivity; to develop an integrated wireless solutions retail proposition to address new opportunities in the market

Of Group revenue
47.8%
2006: 51.8%

Of Group contribution
37.6%
2006: 39.8%

Insurance

Description and Key Assets Provision of insurance products covering loss, theft or damage to mobile handsets. 2.2m customers across Europe

Strategy To maintain or grow the penetration of Insurance sales relative to subscription connections, through ongoing training and the introduction of a wider range of products; to reduce churn by improved management of existing customers

Of Group revenue
3.4%
2006: 3.8%

Of Group contribution
12.3%
2006: 12.7%

Ongoing

Description and Key Assets ARPU-sharing agreements with networks through which the Group receives a percentage of customers' monthly bills in return for customer recruitment

Strategy To maintain or improve existing arrangements and seek ARPU-sharing agreements with additional networks

Of Group revenue
1.8%
2006: 1.9%

Of Group contribution
16.2%
2006: 16.3%

Telecoms Services division:

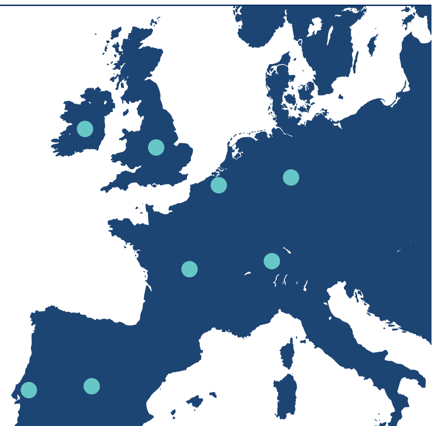
Comprises our Mobile Services operations and Fixed Line businesses, addressing SME and residential markets

Revenue

£1,700.6m

2006: £1,126.5m

Our Markets
UK, Belgium, France, Germany, Ireland, Portugal, Spain, Switzerland



Headline EBIT	Broadband customers	Mobile customers
£19.4m	**2.3m**	**2.0m**
2006: £26.4m	2006: 0.2m	2006: 1.6m

Mobile – Service Provision

Description and Key Assets The Phone House Telecom in Germany, a mobile service provider with 1.5m customers that recruits, bills and manages customers on its own mobile packages, based on wholesale agreements with network operators

Strategy To grow the customer base by increasing our store portfolio and third party channels, while focusing on the higher value segment of the market

Of Group revenue	Of Group contribution
9.1%	**11.9%**
2006: 11.1%	2006: 13.9%

Mobile – Other Operations

Description and Key Assets Billing and management of customers of network operators in the UK and France, and the operation of MVNOs in the UK, Belgium, France, Germany, Portugal, Spain and Switzerland

Strategy To build our existing MVNO operations to profitable critical mass and develop MVNO operations across Europe

Of Group revenue	Of Group contribution
3.5%	**1.6%**
2006: 4.0%	2006: (0.4)%

Fixed – Business

Description and Key Assets Provision of voice, data and value-added services to businesses in the UK and Spain

Strategy To acquire new customers and broaden the suite of services offered; to invest in enhancing and modernising the network to maximise efficiency and support new services

Of Group revenue	Of Group contribution
8.9%	**7.3%**
2006: 9.7%	2006: 8.3%

Fixed – Residential

Description and Key Assets Provision of voice and broadband services to residential customers in the UK and other European markets. TalkTalk and AOL represent our fixed line customer base

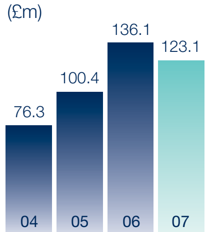
Strategy To become the number one alternative to BT in UK residential telecoms

Of Group revenue	Of Group contribution
21.0%	**12.8%**
2006: 12.2%	2006: 8.8%

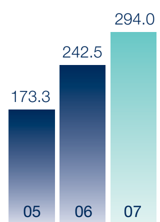
Financial Highlights

	2007 £m	2006 £m
Revenue	3,991.5	3,046.4
Headline results		
EBITDA	294.0	242.5
Profit before tax	123.1	136.1
Earnings per share	11.82p	12.38p
Statutory results		
Profit before tax	68.4	81.0
Earnings per share	7.51p	7.99p
Reorganisation costs	–	(35.2)
Dividend per share	3.25p	2.50p

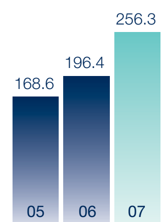
Headline PBT down 9.5%
due to Broadband investment
(£m)



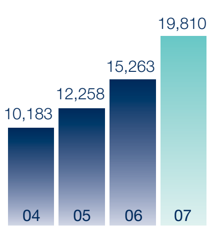
EBITDA up 21.2%
year-on-year
(£m)



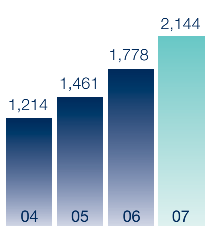
Strong growth in
operating cash flow
(£m)



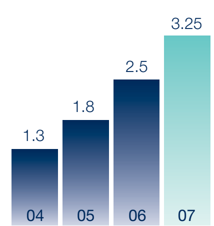
Nearly 20,000 employees



683 stores opened in the
last two years



Dividend up 30%
(pence)



Chairman's Statement

The Group has experienced a year of mixed fortunes. The Distribution business has once again exceeded our expectations, continuing to prosper in an attractive market and taking share from our competitors. Our fixed line telecoms business has achieved real scale, with the strong organic growth stimulated by our Free Broadband proposition augmented by the acquisition of the UK customer base of AOL. However, the unprecedented demand created by our broadband offer led to unacceptable levels of customer service.

As an organisation that has always sought to put the customer at the centre of all of our business decisions, we were very disappointed to have let our customers down in this way. In response to the problems, we have dedicated significant additional resource in our call centres and re-engineered our provisioning and customer management processes to create a robust and scaleable platform. It is our aspiration to differentiate our broadband proposition not only on value but also on service, and this will be one of the Group's key goals for the coming year.

Group revenue for the period was £3,991.5m, a rise of 31.0% on last year's figure of £3,046.4m. Headline pre-tax profit fell by 9.5% from £136.1m to £123.1m, reflecting, as expected, start-up losses of £80.5m in the launch of Free Broadband and Virgin Mobile in France, and a net gain on fixed asset disposals of £3.7m. Earnings per share on the same basis decreased by 4.5% from 12.38p to 11.82p. Statutory profit before tax, after the amortisation of acquisition intangibles, and reorganisation costs in the prior year, fell by 15.6% from £81.0m to £68.4m, while statutory earnings per share decreased by 6.0% from 7.99p to 7.51p. Cash generated from operations increased by 30.5% from £196.4m to £256.3m, reflecting strong growth in the Group's underlying business. The Board is proposing a final dividend of 2.25p, taking the total for the year to 3.25p. The increase of 30% on last year's distribution reflects the Board's confidence that the current level of investment will generate significant long-term value.

As the business grows up, we will increasingly need to balance its natural dynamism and creativity with a tight focus on operational efficiency and business processes. Over the past 18 months, with the acquisition of Onetel and the AOL base, and the launch of Free Broadband, the entrepreneurial spirit of the business has been self-evident. The success of the Onetel integration demonstrates that there is the necessary quality of operational expertise to support the strategic vision. Execution will become an ever more important theme over the next 12 months as we bed down the AOL business and make further significant enhancements to the quality of our broadband service.

However, it is not in the Group's nature to stand still for long, and we were very pleased to agree a major strategic partnership shortly before our year end with Best Buy Co, Inc., the largest consumer electronics retailer in the US. After a successful trial in New York, we are rolling out a mobile retail joint venture to 150-200 stores in the US in the next 18 months. In addition, we are bringing Best Buy's Geek Squad home technology customer service operation to the UK. The business case for both of these projects is compelling, and we believe the partnership will create significant value over the coming years.

As the business grows up, we will increasingly need to balance its natural dynamism with a tight focus on operational efficiency

This year we have asked more of our people than ever before, and they have responded to the challenges we have faced with great commitment, dedication and patience. I would like to extend the Board's thanks and gratitude to everyone in the Group for their continued efforts. We all share the same dissatisfaction in falling well short of our usual high standards of customer service and are united in our determination to deliver a very positive and consistent customer experience in the years ahead.

John Gildersleeve,
Chairman

KEY ACHIEVEMENTS

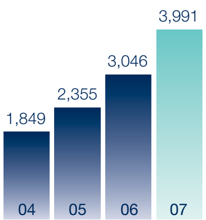
366
new stores opened

17.3%
52 week growth in subscription connections

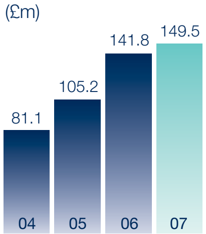
31.0%
growth in Group revenue

Chief Executive's Review

Revenue up 31.0%
(£m)



Headline operating profit
up 5.4%
(£m)



This has been another successful year for Carphone Warehouse, but we faced significant challenges along the way. Group revenues are up 31.0%, we have executed very well in our Retail business and increased our market share, and we have made significant progress towards our goal of becoming the leading alternative fixed line telecoms provider in the UK. The launch of Free Broadband changed the face of the UK broadband market forever, but created its own problems: the unexpected level of demand, combined with the complexity of the provisioning processes, led to significant customer service issues.

Last year I underlined our "private company" approach to investment and growth opportunities. While every project needs to be financially justified and we have rigorous hurdle rates for new investment, we tend to take the long view. As a result, earnings in the short term can be depressed by our pursuit of long-term value creation. In such circumstances it is our responsibility to communicate the scale, timing and impact of new business initiatives so that investors can make informed decisions.

This has never been more true than in the past 12 months. We have incurred start-up losses of over £80m in our launch of Free Broadband and Virgin Mobile in France. Our total cash commitment in the year to these new initiatives, and the acquisition of AOL's UK customer base, has been nearly £400m. As we manage the path to profitability and cash generation in these businesses, we are already committing to a further exciting growth project, with the roll-out of our retail joint venture in the US and Geek Squad in the UK. No doubt further opportunities will arise, and we will continue to pursue them with commitment and conviction.

Strategic context

Our strategic approach is built on three primary objectives:

- To continue to grow market share in all our geographical markets, by investing in new store openings, achieving increasing productivity from our existing estate, and developing additional distribution channels;
- To maximise the lifetime value of our customers, both by providing a level of service that encourages repeat business, and by identifying relevant new products and services where our brand, service and distribution give us an edge over other suppliers; and
- To become the leading alternative provider of fixed line telecommunications services in the UK.

Through organic growth and acquisition, we have built up a unique set of assets: a network of stores that act as the focal point of our interaction with customers, both mobile and fixed line; a comprehensive fixed line telecoms network covering the whole of the UK, with investment focused on areas of added value; and significant customer bases, creating valuable annuity revenue streams to improve the quality of our earnings. Our strategic objectives aim to leverage these assets to deliver long-term growth and value creation to shareholders.

Growing our retail presence

There are two key factors supporting our strategy to grow our retail presence. Firstly, we believe that we are under-penetrated in almost all of our geographical markets, and the dynamics of the industry continue to be attractive. Secondly, as our market share increases, our scale delivers operational benefits through improving terms with network operators and handset manufacturers alike. Our model of reinvesting these benefits into the customer proposition, through better pricing and improved range and availability of handsets, serves both to defend our market position by raising the barriers to entry, and to deliver incremental growth and scale.

The key drivers of the Distribution division – network appetite for customers, a vibrant handset market, and our own physical expansion – all remain firmly in place

This year we have opened 366 net new stores across our ten markets, taking the total portfolio to 2,144. Over the last three years we have opened 930 stores and grown the estate by 76.6%. During the same period, connections are up 87.2%, demonstrating our ability to generate continued growth out of existing sites.

We generated retail like-for-like gross profit growth of 5.0% during the period, as the handset market showed further growth, and we took market share through our focus on the widest range of handsets and the best availability on the high street. After last

Looking forward, we plan to marry physical expansion with an increased focus on productivity from our existing estate

year's success with the exclusive pink Motorola V3, this was a particularly creditable performance achieved across a range of unique handsets rather than from a single blockbuster product.

During the year we entered our first new market for over seven years through our link-up in the US with Best Buy. After a successful trial we are excited about the rapid roll-out plans and the opportunity to introduce US consumers to the independent mobile retail model. Best Buy is the ideal partner and the relationship between us is highly complementary.

Looking forward, we plan to marry physical expansion with an increased focus on productivity from our existing estate. Excluding the US, we see opportunities to open a further 200-250 stores a year for the next three years. Just as importantly, we are revisiting existing sites and assessing the need for additional headcount and points of sale as we seek to convert more of our footfall into business. We also have the opportunity to re-site stores in many major centres where we have outgrown our current footprint.

Maximising customer lifetime value

We have been focused on maximising customer lifetime value for almost as long as Carphone Warehouse has existed. Generating enhanced value for our network partners and loyalty from our customers comes not just from providing high quality consultancy at the point of sale, but supporting customers through the product life-cycle.

Over the years we have been very successful at introducing new services into our retail offering, with our Insurance and Fixed Line services being the most obvious and successful. However, the quality of our customer interaction is often demonstrated in less quantifiable ways – for example, through our investment in new store formats or our commitment to live product demonstrations. What all of these developments have in common, though, is that they meet the changing needs of the marketplace and reflect Carphone Warehouse's ongoing ability to renew its business model in response to the prevailing opportunities and risks.

Today, as wireless technologies become more pervasive and our customers increasingly want more from us than choice, availability and advice on a simple mobile contract, we are beginning to adapt our proposition once more. Customers – and our network partners – will want integrated solutions, allowing seamless connectivity across multiple platforms and locations. They want their computer to talk to their television, and to be able to control both from their mobile device while away from home.

We sell most of the "nuts and bolts" today – mobile contracts, high-speed data cards, broadband, hand-held e-mail devices; some of these are our own products, most of them are third party. Our job will be to set our customers up with the most appropriate suite of services and make sure that it all works. The stores, as ever, will be the primary point of distribution, but Geek Squad will become an integral part of our overall value proposition.

Geek Squad, launched with our partners Best Buy, is a home technology troubleshooting service, developed to address the increasing technological complexity of people's lives. It will allow us to add significant value to customers by making technology work for them, and to our network partners by tying their individual products and services into a unified package.

To support the broadening of our proposition, which will include the sale of an increasing range of non-cellular communications products, we are embarking on a programme of refits and relocations across a range of our larger stores in prime locations. We will update investors with progress as our new strategy evolves.

Becoming the leading alternative fixed line provider in the UK

Nearly five years ago, when we acquired Opal Telecom in November 2002, we set ourselves the ambitious goal of becoming the number one alternative fixed line telecoms provider in the UK. We believed that the combination of high consumer prices, a high incumbent market share, meaningful regulatory change and our own unique distribution network was a powerful one; the network infrastructure and telco know-how we acquired with Opal completed the jigsaw.

Today, through a combination of strong organic growth and judicious acquisitions, we have over 10% of the residential telephony market and approximately 16% of the broadband market. After the very significant strides we have made this year, our bold objective is now clearly within reach.

During the year we made three notable steps forward and one step back. We announced in November 2005 our plans to invest in local loop unbundling ("LLU") – a process in which we install our own exchange

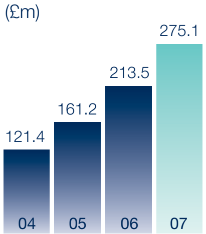
KEY TARGETS

10%
market share of mobile phone market

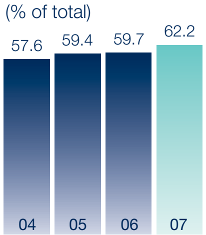
3.5m
Broadband customers by March 2010

1m
Virgin Mobile France customers by March 2009

Contribution from recurring revenues up 28.9%
(£m)



% of contribution from recurring revenues
(% of total)



equipment within BT's exchange network, enabling us to take control of the copper wire (or "local loop") that connects customers' houses with their local exchange. OFCOM, the UK telecoms regulator, had just finalised its market review, which finally gave visibility and certainty to LLU. Its attractions for a telecoms service provider are that it allows us to provide calls, line rental and broadband services to our customers at a much lower cost price than BT's wholesale product suite.

In April 2006 we announced a revolutionary new service, TalkTalk Free Broadband, giving free broadband connectivity to customers who sign up for our calls and line rental package. At the same time, we announced a rapid acceleration of our LLU roll-out, aiming to unbundle 1,000 exchanges over the following 14 months. Demand for the new proposition has been exceptional, and by March 2007 we had signed up 655,000 live customers. In addition, our engineers at Carphone Warehouse Networks, the re-branded Opal network team, completed all of our planned equipment installation well ahead of schedule, with 1,024 exchanges live by the end of the financial year.

The launch of Free Broadband changed the face of the UK broadband market forever

Broadband via LLU is a scale game, with unit costs falling with every additional customer connected to an unbundled exchange. As a result, we were delighted to acquire the customer base of AOL in the UK in December 2006. This immediately took our market share to around 16%, and gives us the scale we need to ensure a significant payback on our infrastructure investment. In addition, we now operate with two differentiated brands, allowing us to address two distinct and valuable segments of the broadband marketplace.

The one flat note to our broadband launch has been the impact on customer service levels resulting from the very strong demand we generated. For much of the year we were slow to answer calls in our contact centres and failed to resolve enough of our customers' problems first time around. This inevitably led to a poor customer experience and our fair share of negative publicity. We continue to invest substantially in improving the provisioning process and providing high quality support, and are confident that as the new financial year progresses, we will begin to make customer service a positive differentiator for the TalkTalk brand.

Outlook

The outlook for the Group remains positive. The key drivers of the Distribution division – network appetite for customers, a vibrant handset market, and our own physical expansion – all remain firmly in place. As our strategy evolves, we believe that our opportunities for growth in the medium term are increasing, both through the development of our wireless solutions model, and through the Geek Squad and Best Buy Mobile ventures. Our ability to achieve continued growth in sales and profitability stems in no small part from our historical success in adapting the business model to address the opportunities and challenges of a dynamic market.

Physical expansion and market share gains remain at the heart of our strategy, and we plan to open a further 250 stores this year, in addition to the US roll-out. Our market share in continental Europe still lags our UK share, which itself continues to grow: there is no structural reason why, in time, our market shares across most of our European markets cannot reach the 20% level.

We are targeting 15% growth in subscription connections, a little ahead of our planned space growth, as we anticipate further growth in this higher value part of the market and invest in improved store productivity. The pre-pay market is quieter, after 18 months of very significant growth, and we expect this to be reflected in our own pre-pay connections growth during the year. We expect gross profit per connection, an important KPI for the business, on both subscription and pre-pay to be stable year-on-year.

Our Ongoing and Insurance revenue streams, key components of customer lifetime value driven by subscription connections, are set to rise in line with mobile subscriptions growth. Progress in our Mobile businesses will be steady, as our German service provision business continues to increase customer numbers, revenues and profits, and our MVNO operations across Europe start to come out of their launch phases.

In our UK Fixed Line operations, our broadband and unbundling strategy will begin to bear fruit, as margins improve dramatically with the migration of customers to our own network and the integration of the AOL customer base. Meanwhile, we will continue to invest in expanding and deepening our network and growing the customer base towards our target of 3.5m broadband customers by March 2010. We are absolutely focused on improving operational execution and customer service and while we are encouraged by the progress we are making in these areas, there is much more we can and will do.

Launching Free Broadband has been the hardest thing I've ever done in business, and it's been hard for all of our employees – in the stores, in the contact centres and in management and support functions. All of us share one goal – to service all our customers properly and make TalkTalk a business we can be proud of, with a reputation for quality and service that The Carphone Warehouse and The Phone House already rightly enjoy. Once again I would like to thank everyone across the whole Group for their continued efforts.

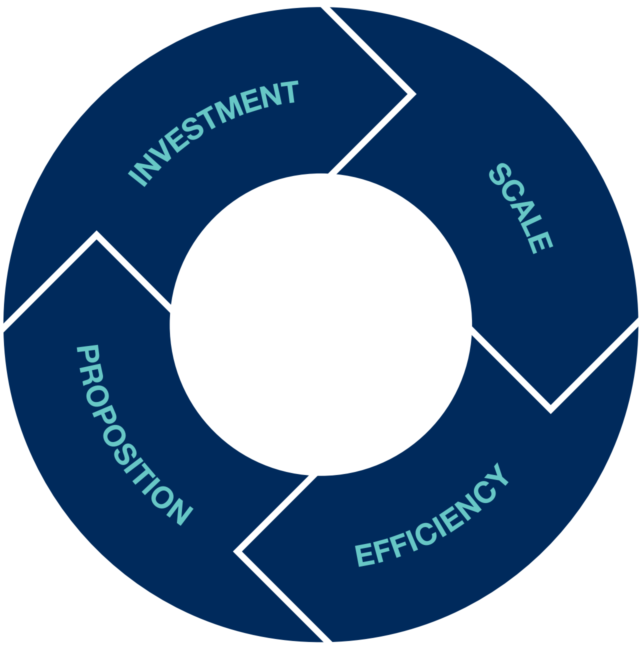
Charles Dunstone,
Chief Executive Officer

GLOSSARY

ARPU	Average revenue per user: applies to both mobile and fixed line customers. Usually quoted as a monthly figure.
CPS	Carrier Pre Selection: the platform on which TalkTalk has grown to date, whereby calls are switched from BT onto an alternate service provider's network at the local exchange level.
ISP	Internet Service Provider: company providing internet access.
LLU	Local Loop Unbundling: process that allows other operators access to BT's local loop, by installing equipment in BT's exchanges and physically moving over a customer's line.
Local loop	The copper wire that connects houses to the BT local exchange network.
Migration	The process of moving a customer from BT's wholesale products onto our own unbundled lines.
MVNO	Mobile Virtual Network Operator: a mobile service provider with no network infrastructure of its own, that "piggybacks" off a network operator at a commercially-negotiated wholesale rate.
OFCOM	The UK regulatory body for the telecoms and media industries.
Openreach	The access services division of BT, responsible for delivering equivalence of service on a range of access products. The result of the regulatory settlement between BT and OFCOM.

Our Strategy

OUR VIRTUOUS CIRCLE OF PERFORMANCE



Investment
Our long-term approach to investment creates sustainable competitive advantage in our chosen markets. Investment is not just about capex – although our commitment to store openings and exchange unbundling is significant – it is also about marketing, brand-building and customer recruitment.

Scale
We aim to be a mass market provider in our major business lines by driving for volume ahead of margin. We then use our increased presence in the market to improve our supplier terms and reinvest these benefits in the customer proposition.

Efficiency
Scale also creates significant efficiencies for our business, through leveraging our fixed cost store base and telecoms infrastructure. We seek to maintain our competitive advantage by continued investment across the business.

Proposition
We are absolutely committed to delivering value to customers across all our services. Investment in the right platforms is key to our ability to develop a compelling customer proposition, as it allows us to build scale, and offer greater value and an improved customer experience.

2007 Performance Update

Distribution division	OUR OPERATIONS	WHAT WE SAID WE'D DO IN 2006/07
	Retail and Online	• Open a further 250 new stores • Differentiate proposition through handset range • Continue to drive growth in subscription connections • Continue to explore non-UK Online opportunities
	Insurance	• Further base growth • Improve penetration with new products
	Ongoing	• Revenue growth of 15-20%

Telecoms Services division	OUR OPERATIONS	WHAT WE SAID WE'D DO IN 2006/07
	Mobile – Service Provision	• Further growth in subscription base • Stabilisation of ARPU trend through focus on higher quality channels
	Mobile – Other Operations	• Launch Mobile World in other markets • Refine Fresh proposition to maximise customer lifetime values • Build towards target of 1m Virgin Mobile customers within 3 years
	Fixed – Business	• Focus on local loop unbundling programme to hit target of 1,000 exchanges by May 2007 • Leverage LLU platform to build corporate broadband products • Build on initial TalkTalk Business success
	Fixed – Residential	• Focus on rapid recruitment of broadband customers • Manage the successful migration of customers onto unbundled lines • Complete integration of Onetel acquisition • Raise line rental penetration on voice customer base to 60%

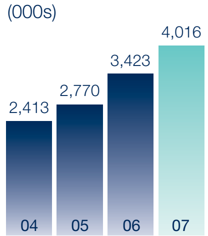
For regular updates on our performance visit us at **www.cpwplc.com**

HOW WE PERFORMED	OUR 2007/08 OBJECTIVES
• 366 new stores opened • 150 stores refurbished • Subscription connections up 17.3% • Increasing range of exclusive products	• Open a further 250 new stores • Develop new format wireless solutions stores • Continue to expand our presence in the US market through Best Buy Mobile • Roll out Geek Squad across the UK
• Customer base up 16.2% • High tier base up 18.6%	• Revenue growth of 15%
• Ongoing revenue up 22.7%	• Revenue growth of 15%

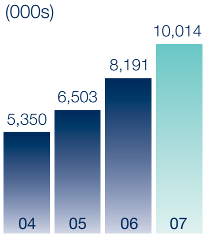
HOW WE PERFORMED	OUR 2007/08 OBJECTIVES
• Customer base grew 28.3% to 1.50m • Some stabilisation of ARPU during the year	• Continued steady growth in revenue, profitability and customers
• UK MVNO business moving into profitability • Virgin Mobile France well on course for 3 year target • Launch of MVNOs in Spain, Portugal, Switzerland and Belgium	• Continue to build the Virgin Mobile France brand and customer base • Launch contract MVNO in the UK • Invest in building non-UK MVNO operations
• Reached exchange target by March 2007, two months ahead of schedule • Acquisition of Alto Hiway, B2B ISP, to support development of corporate broadband services	• Build out exchange network to 1,650 TalkTalk and 900 AOL exchanges • Begin process of unifying network infrastructure to a single technological platform
• 2.3m UK customers – 16% market share – through organic growth and the AOL acquisition • Delays in migration process but over 30% of total base unbundled by year end • Poor customer service had a negative impact on brand perception • Onetel integration successful and voice base delivering strong profitability	• Complete integration of AOL • Invest in improved customer service • 70% of base migrated to LLU by March 2008

Business Review
Operating and Financial Performance

52 week Subscription connections up 17.3% (000s)



52 week Total connections up 22.3% (000s)



Distribution Division

The Distribution division comprises our Retail operations and all directly-related business streams. The key operating assets of the division are our 2,144 stores across 10 European countries and our Retail and Online brands. Equally important are our supplier and partner relationships.

Distribution revenues were up 20.8% year-on-year to £2,117.5m, and the division generated Headline EBIT of £141.4m, a rise of 22.4%. Growth was strong across all revenue lines.

From next year the Distribution division will also incorporate our Mobile operations, as well as our Dealer and non-UK Fixed Line business operations. This will more accurately group our future operations by the key assets that support them.

Retail (including Online)
The Group achieved 10.0m connections during the year, representing growth of 22.3% over the prior year. Subscription connections, the key driver of value in our Distribution business, were up 17.3% to 4.0m. We continued to operate in an attractive market, with fashion and technology being the main drivers of an accelerating handset replacement cycle, and network operators keen to pursue customer growth.

Headline Financials	2007 £m	2006 £m
Revenue	**2,117.5**	1,753.5
Retail (inc Online)	**1,908.8**	1,579.0
Insurance	**137.0**	116.1
Ongoing	**71.7**	58.4
Contribution	**292.8**	246.1
Retail (inc Online)	**166.6**	142.2
Insurance	**54.5**	45.5
Ongoing	**71.7**	58.4
Support costs	**(96.6)**	(84.1)
EBITDA	**196.2**	162.0
Depreciation and amortisation	**(54.8)**	(46.5)
EBIT	**141.4**	115.5
EBIT %	**6.7%**	6.6%

We executed well on our handset strategy, focusing on the broadest range and the best availability in the market, with a number of exclusive products to stimulate demand and raise footfall. In addition, we began work on improving retail productivity, as we seek ways to convert more of our footfall into revenues. This will be a key operational goal for the coming year.

Pre-pay sales continued the very strong trend from the previous year, with total connections up 27.7%. This performance partly reflects a buoyant market for pre-pay, and partly our successful strategy of growing our pre-pay market share towards the level of our subscription share. Towards the end of the financial year, pre-pay growth slowed as the market became more subdued and we came up against very strong comparable growth figures. SIM-free sales were up 10.7% year-on-year.

Connections

	2007 000s	2006 000s
Subscription	**4,016**	3,423
Pre-pay	**5,428**	4,252
SIM-free	**571**	516
Total	**10,014**	8,191

We opened 444 new stores during the year and closed 78. The total number of stores increased from 1,778 at March 2006 to 2,144 by March 2007. The total includes 194 franchise stores (2006: 140 franchises). Total average selling space excluding franchises increased by 16.5% to 96,865 sqm (2006: 83,128 sqm) and sales per square metre increased by 4.1% to £17,219 (2006: £16,547). Total average selling space including franchises increased by 18.9% to 104,452 sqm (2006: 87,871 sqm).

Total Retail revenues (including Online) were up 20.9% and gross profit by 23.9%. Like-for-like revenue growth was 6.6% and like-for-like gross profit growth was 5.0%. The increase in revenues was the result of strong connections growth, partially offset by a fall in average revenue per connection from £192.8 to £190.6 as a result of the higher proportion of pre-pay sales within the mix.

Average cash gross profit per connection rose from £54.4 to £55.2. Gross profit per connection on subscription rose 4.4% to £98.5 and gross profit per connection on pre-pay rose 1.6% to £26.2.

We relocated a number of stores to bigger sites and began work on a new store format providing an improved environment for customers

Contribution from Retail grew by 17.2% to £166.6m (2006: £142.2m). The contribution margin fell to 8.7% (2006: 9.0%), as further good like-for-like growth was offset by continued investment in the store proposition. Retail direct costs were up 27.1%, reflecting the expansion of the store portfolio, higher commissions to sales consultants and ongoing rental inflation.

In the UK, our store portfolio increased from 669 stores to 769 stores. At the same time, we relocated a number of stores to bigger sites and began work on a new store format providing an improved environment for customers and sales consultants. We will continue to roll out this new format to key locations across the UK this year. Growth was enhanced by the acquisition of a portfolio of stores previously trading as The Link, one of our main independent competitors, after it had been acquired by Telefonica/O2. Total UK connections were up 21.6%.

Our Spanish business goes from strength to strength. We opened 70 stores during the year, taking the overall base up to 408, and achieved connections growth of 24.6%. The launch of a fourth network, Yoigo, and a number of MVNOs, stimulated further demand. Our growth in Spain has led to long queues with an impact on conversion rates in a number of our stores, and we are therefore seeking to locate to larger premises, where appropriate, to meet demand.

In France, the improving trends of the previous year continued. We opened 50 stores, taking the total store count up to 270, and connections growth of 16.1% reflected a stronger market. The launch of a number of MVNOs, backed by strong consumer brands, including our own Virgin Mobile joint venture, contributed to a more vibrant market environment and a shorter replacement cycle.

With the exception of Switzerland and The Netherlands, all of our other markets enjoyed a year of very good growth. In particular, Sweden achieved connections growth of 36.3%, a notable effort after a difficult previous 12 months. The performance reflected our strategy of using a period of tougher market conditions to improve our retail proposition and pursue additional distribution channels, with the result that in a rejuvenated market, we took considerable market share while competitors had weakened. Belgium, Germany, Ireland and Portugal all fared very well, with connections growth above the Group average and increasing consistency of execution apparent across the board.

Our Dutch and Swiss businesses continued to underperform, recording connections growth of 5.0% and a fall of 1.8% respectively. In Switzerland, a year of underperformance has led to a reorganisation of the business, consolidating our operations into a single support centre and introducing some new senior management. In The Netherlands, the overall market was subdued, but we have also failed to execute consistently. A new management team is producing encouraging early results.

Insurance

The Group offers a range of insurance products to its retail customers, providing protection for the replacement cost of a lost, stolen or damaged handset, as well as cover for any outstanding contractual liability and the cost of any calls made if a mobile phone falls into the wrong hands. Insurance is a core element of the Group's customer proposition. The main drivers of the Insurance business are customer numbers, average premiums, claims costs and operational efficiency.

The customer base rose by 16.2% over the year to 2.23m. Once again, the mix improved, with growth of 18.6% in the high tier base. Insurance revenues were up 18.1% to £137.0m (2006: £116.1m) driven by the higher average base. Contribution was up 19.6% to £54.5m (2006: £45.5m).

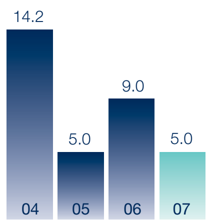
The prospects for our Insurance business are good, given our expectation of continued growth in subscription connections, the key driver of insurance policy sales. Customers are wedded to high value subsidised handsets that are expensive to replace, and our focus on excellent service and a straightforward claims process makes the product attractive.

Ongoing

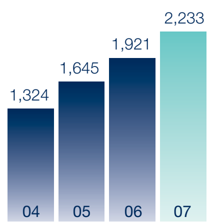
Ongoing revenue represents the share of customer call spend (or ARPU) we receive as a result of connecting subscription customers to certain networks. We are typically entitled to our share of revenue for as long as a customer is active, so this income stream represents an important element of our overall commercial agreement with many networks, and aligns our interests more closely. Again, the key underlying driver for Ongoing is our subscription connection sales.

Ongoing revenues grew by 22.7% year-on-year to £71.7m (2006: £58.4m). This continued strong performance reflects the sustained strong subscription connections over the last few years, and we expect this positive trend to continue.

Continued strong LFL gross profit performance (%)



Insurance base up 16.2% (000s)

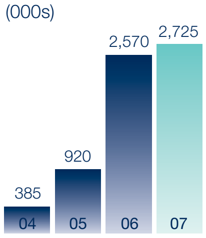


Business Review

Governance

Financial Statements

More than 10% share
of UK CPS market
(000s)



Telecoms Services Division

The Group's Telecoms Services operations are split into two businesses, Fixed and Mobile. The Fixed business comprises our residential and business-to-business fixed line operations, predominantly in the UK. The Mobile business encompasses our German service provision business, The Phone House Telecom, and our-wholly owned MVNO and Facilities Management ("FM") businesses.

From next year, we will report the Mobile and Non-UK Fixed Line operations within Distribution, and report UK Fixed Line as a separate division. This closely reflects our internal reporting structure going forward and groups business units more logically with the assets that support them.

Telecoms Services revenues grew by 51.0% year-on-year to £1,700.6m (2006: £1,126.5m). Good underlying growth was supported by a full year's contribution from Onetel, which was acquired in December 2005, and three months' contribution from the purchase of AOL's customer base in the UK. EBIT fell 26.4% to £19.4m, reflecting a total of £72.0m in start-up losses relating to the launch of TalkTalk Free Broadband.

Fixed

Our fixed line operations grew dramatically during the year, through a combination of strong underlying growth and the impact of two major acquisitions. Total revenues were up 79.4% to £1,195.8m (2006: £666.7m), and contribution was £89.0m (2006: £61.1m). The contribution figure reflects the impact of £60.3m of losses relating to the launch of TalkTalk Free Broadband.

Headline Financials	2007 £m	2006 £m
Revenue	**1,700.6**	1,126.5
Fixed	**1,195.8**	666.7
Mobile	**504.8**	459.8
Contribution	**149.0**	109.5
Fixed	**89.0**	61.1
Mobile	**60.0**	48.4
Support costs	**(50.6)**	(29.7)
EBITDA	**98.4**	79.8
Depreciation and amortisation	**(79.0)**	(53.4)
EBIT	**19.4**	26.4
EBIT %	**1.1%**	2.3%

In our UK business, the year was one of considerable investment in launching our broadband offering: in customer recruitment, customer services, network infrastructure and the acquisition of AOL's UK customer base. Total UK Fixed Line revenues were up 91.7% to £1,084.2m (2006: £565.6m), and contribution rose 55.5% to £81.4m (2006: £52.4m).

The cornerstone of all our UK fixed line operations is the Opal telecoms network, now re-branded as The Carphone Warehouse Networks. This year we successfully undertook a major infrastructure project with the build-out of our own local loop unbundling ("LLU") network. This investment allows us to provide the full suite of fixed telecoms services – calls, line rental and broadband – to our customers at a significantly lower operating cost than we can using BT's wholesale products. By March 2007 we had installed our own equipment in 1,024 exchanges, covering over 65% of the residential population.

Importantly, our pursuit of a "fully unbundled" strategy, covering voice as well as broadband, gives us a material advantage over a partially unbundled approach, in which only the broadband element is unbundled. The technical expertise required to create this network is substantial, and we do not believe that it will be easily replicated by other market participants.

At the start of the financial year, we launched TalkTalk Free Broadband, and by March 2007 we had 655,000 customers live on the new service. Customer ARPUs were ahead of our original plan, at approximately £28 per month, and underlying network costs were in line with our expectations, giving us great confidence in the future profitability of the broadband business.

Costs exceeded our plan in two main areas: firstly, in the rate of migration to our own network, which we discuss in more detail below; and secondly in relation to customer service overheads, where we invested in additional headcount to deal with the high contact rates created by demand and provisioning problems. We anticipate that unit customer service costs will be in line with our original plan by March 2008, but in the meantime, as previously indicated, we expect to incur additional costs of £10-15m in the coming year as a result of these over-runs.

We made a further major strategic move during the year with the acquisition of AOL's internet customer base in the UK. This immediately made us the number three player in the UK broadband market and gave us the requisite scale to ensure a healthy payback on our infrastructure investment. The acquisition also gives us two differentiated products in the market, thus increasing our potential addressable market. We ended the year with 2.27m broadband customers, equivalent to approximately 16% of the UK market.

During the year we started migrating customers from BT's network to our own unbundled lines, a process carried out by BT Openreach's engineers. This operation is fundamental to the overall profitability of our residential business as it significantly reduces unit operating costs. Initially, progress was slow and the high number of errors resulted in a very poor customer experience. However, towards the year end we saw a significant improvement in the reliability of the service, which led to a rapid acceleration in migration rates. As at March 2007 we had more than 700,000 customers, or over 30% of our broadband base, on our own unbundled network.

UK Customers

	2007 000s	2006 000s
Broadband		
AOL	**1,535**	–
TalkTalk Free	**655**	–
TalkTalk Existing	**81**	168
Total	**2,271**	168
Of which unbundled		
AOL	**327**	–
TalkTalk	**375**	–
Total	**702**	–
Voice		
AOL	**125**	–
TalkTalk Free	**740**	–
TalkTalk Existing	**1,860**	2,570
Total	**2,725**	2,570

As planned, our base of voice-only customers, serviced via Carrier Pre-Select ("CPS"), declined during the year, as we migrated customers onto our bundled broadband products. We started the year with 2.57m voice-only customers and by March 2007 this figure had fallen to 1.86m customers. However, taking into account our broadband customers who also take voice services, our total voice base grew to 2.73m. Underlying profitability from voice services improved during the year as industry consolidation led to a more stable pricing environment. Overall, our UK residential operations generated revenues of £764.4m (2006: 305.6m) and contribution of £50.2m (2006: £24.3m).

Our UK business-to-business operations, under the Opal brand, enjoyed a year of good growth. Reported profitability does not fully reflect the underlying trend as we continued to allocate all our telecoms engineering headcount to the Opal business, although the economic benefit is shared with the residential operations. From the current year, we will allocate these costs on a more equitable basis. UK business-to-business revenues were up 23.1% to £319.9m (2006: £259.9m) and contribution rose 11.1% to £31.2m (2006: £28.0m).

During the year, we acquired Alto Hiway, a small business focused ISP. In combination with Rednet, a business ISP acquired with Onetel, this will provide the platform for the launch of a range of data products into Opal's core market, as Opal seeks to extend its product offering outside its historical focus on value-added voice services. The platform of unbundled exchanges supporting the residential strategy is a potentially highly valuable asset in the SME space.

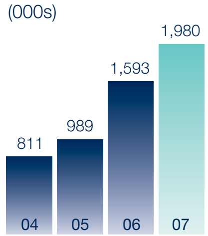
Non-UK Fixed Line revenues were up 10.4% to £111.6m (2006: £101.1m) and contribution down 12.9% to £7.6m (2006: £8.7m). From the year to March 2008 we will be reporting these operations, and our Mobile businesses, within the Distribution division, since for the most part their value lies in our ability to recruit customers through the store base, rather than in network infrastructure.

Mobile

Total Mobile revenues were up 9.8% to £504.8m (2006: £459.8m), and contribution rose 24.0% to £60.0m (2006: £48.4m). The Phone House Telecom, our German mobile service provision business, saw contribution rise 5.8% to £52.7m (2006: £49.8m) on revenues of £363.2m (2006: £337.4m). After the amortisation charge for subscriber acquisition costs, net contribution was up 15.8% to £21.9m (2006: £18.9m).

The operating environment in Germany continued to benefit our model, with networks demonstrating a consistent appetite for high quality subscription

Strong growth across all Mobile bases (000s)



Our track record of innovation and customer focus makes us a very credible top tier player in the broadband market

Operating and Financial Performance continued

customers. The service provision base rose by 28.3% to 1.50m customers at March 2007, of whom 926,000 (2006: 823,000) were on two year contracts. Although increased competition saw some pressure on ARPUs year-on-year, particularly in pre-pay, our subscription ARPUs showed some signs of stabilisation during the year as we renewed our focus on higher end distribution channels.

Our wholly-owned MVNO operations moved up a gear as we launched new services in Spain, Portugal, Switzerland and Belgium during the year. In the UK, we refined our product strategy to focus on Mobile World, which offers very cheap rates on calls to international destinations, and took an increasingly rigorous approach to maximising customer lifetime value. Our MVNO strategy is to identify niche markets not currently served by the network operators, and to use our own stores and some third party channels for customer recruitment. Total MVNO revenues rose 25.1% to £57.8m, with a loss of £1.6m after a loss of £9.6m in the prior year.

In our Facilities Management operations, providing call centre and billing services to network operators in the UK and France, business was, as expected, relatively static, with revenues of £83.8m (2006: £76.2m) and contribution of £8.8m (2006: £8.2m).

The outlook for our Telecoms Services operations is very promising. In Fixed Line, we expect to grow our customer base, revenues and profitability very strongly over the next three years. We are targeting a total of 3.5m UK broadband customers by March 2010 across our AOL and TalkTalk brands, and our track record of innovation and customer focus makes us a very credible top tier player in this exciting and growing market. We expect ARPUs to be stable, with little sign of increased price-based competition in either broadband or fixed line telephony. The operational focus is on improved customer service and the continued migration of customers onto our own unbundled network, which will deliver a significant uplift to divisional profitability.

On the Mobile side we anticipate continued steady growth from our German operations and a balance between innovation and profitability out of our MVNO businesses.

Dealer Division

Headline Financials	2007 £m	2006 £m
Revenue	**209.7**	188.4
Contribution	**0.8**	2.1
Support costs	**(1.5)**	(1.4)
EBITDA	**(0.7)**	0.7
Depreciation and amortisation	**(0.8)**	(0.8)
EBIT	**(1.5)**	(0.1)
EBIT %	**(0.7%)**	(0.1%)

Dealer operations comprise our pre-pay voucher distribution business, our indirect distribution operations and the wholesale shipment of trade-in handsets. Revenues were up 11.3% to £209.7m and the division recorded an EBIT loss of £1.5m.

The European VAT authorities continue to investigate the recovery of VAT in the industry for trading activities conducted prior to April 2003. Having undertaken a detailed internal investigation and taken advice, we continue to believe that we have no financial exposure to this issue within the financial statements.

Joint ventures

The share of results of joint ventures in the income statement comprises our share of post-tax profits or losses from our joint venture operations. At the start of the financial year, we entered into a joint venture with Virgin to launch Virgin Mobile, a mass market MVNO in France. The focus of the business has been on brand-building, customer recruitment and developing sales channels, and we have been very pleased with progress in the first year of operation. The French market remains less penetrated and less competitive than the rest of Western Europe and therefore constitutes a significant opportunity.

Later in the year, we also entered into two commercial agreements with Best Buy, the leading US consumer electronics retailer. Firstly, we launched Best Buy Mobile, an independent mobile retail format in the US. After a successful trial in Manhattan, we announced plans subsequent to the year end to expand the venture to 150-200 stores over the next 18 months. Secondly, we have collaborated to bring the Geek Squad, the US home technology support business, to the UK market. This launched in London in March 2007 and we believe it will form an important element in our overall Group strategy over the coming years, as wireless technologies pervade the home and customers require on-site and remote consultancy to enhance their user experience.

In the year to March 2007, losses from joint ventures amounted to £9.9m, with the majority relating to our Virgin Mobile venture. As previously indicated, we anticipate total losses of £15-20m in the coming year, as Virgin Mobile continues to invest in building its brand and customer base and the Best Buy ventures move towards critical mass.

Acquisitions

During the year the Group's principal acquisition was the UK internet access business of AOL, for a gross cash consideration of £251.5m and deferred consideration of £128.4m, payable over 18 months. Acquisition intangibles of £323.6m and goodwill of £75.9m arose on the purchase.

Acquisition intangibles relate principally to customer bases, together with contingent rights to a share of future customer transactional spend and a licence to continue to use the AOL brand.

We have not yet commenced the restructuring of the AOL business, but expect to do so in the forthcoming year.

Amortisation of acquisition intangibles and goodwill expense

The amortisation charge in respect of acquisition intangibles amounted to £54.2m (2006: £18.0m), the increase reflecting the full year impact of the Onetel acquisition, and the AOL acquisition intangibles noted above. A goodwill expense of £0.5m (2006: £1.8m) has been recognised in respect of historical acquisitions. These figures are excluded from Headline profit before taxation and earnings per share figures.

Interest and tax

Net interest of £26.4m was payable during the year, compared to a charge of £5.7m in the prior year. Significant investment in capital expenditure and acquisitions were financed out of operating cash flow and debt facilities.

The effective tax rate on a Headline basis was 14.3% (2006: 19.6%). The tax rate benefited from the recognition of tax losses incurred in earlier years, losses acquired from earlier acquisitions and low tax rate jurisdictions.

Earnings per share ("EPS")

Headline EPS was 11.82p (2006: 12.38p). Statutory EPS was 7.51p (2006: 7.99p).

Cash flow and dividend

At 31 March 2007, the Group had net debt of £616.9m (2006: £273.4m). During the year the Group generated cash from operations of £256.3m (2006: £196.4m).

Cash generation remains a prime objective of the Group and we expect to continue to generate significant levels of free cash flow in the future, allowing us to re-invest in the growth of the business and pursue a progressive dividend policy. We are proposing a final dividend of 2.25p per share, taking the total dividend for the financial year to 3.25p and representing growth of 30% over last year's 2.50p total dividend. This level of distribution results in a dividend cover of 2.33 (2006: 3.24). The ex-dividend date is Wednesday 4 July 2007, with a record date of Friday 6 July 2007 and an intended payment date of Friday 3 August 2007.

Summary cash flows

	2007 £m	2006 £m
Operating cash flow	**256.3**	196.4
Tax and interest	**(32.9)**	(19.4)
Net operating cash flow	**223.4**	177.0
Property, plant and equipment (net)	**(147.8)**	(86.9)
Intangibles	**(148.1)**	(104.7)
Acquisitions/JVs	**(266.7)**	(159.5)
Total investment	**(562.6)**	(351.1)
Dividends	**(24.2)**	(17.4)
Shares	**9.1**	(5.1)
Net dividends and shares	**(15.1)**	(22.5)
Net cash outflow	**(354.3)**	(196.6)
Opening net debt*	**(273.4)**	(66.5)
Foreign exchange and non-cash movements	**10.8**	(10.3)
Closing net debt	**(616.9)**	(273.4)

* After restatement for IAS32 and IAS39 in the prior period

Total investment increased from £351.1m to £562.6m year-on-year. In addition to the acquisitions noted above, the increase reflects an uplift in subscriber acquisition costs from £51.6m to £71.8m, and a substantial increase in investment in the Group's IT systems and network infrastructure.

Balance sheet

The investment described above resulted in an increase in non-current assets from £1,014.9m to £1,557.5m year-on-year.

Operating and Financial Performance continued

Acquisitions and organic growth in both Distribution and Telecoms Services are reflected in an increase in trade and other receivables from £554.5m to £743.9m. Correspondingly, there is a year-on-year increase in trade and other payables from £642.0m to £922.2m.

Provisions have decreased from £123.5m to £109.9m during the year, principally reflecting the utilisation of Onetel reorganisation provisions.

Net deferred tax assets have increased from £34.9m to £51.7m, primarily reflecting an increase in unutilised tax losses and a reduction in deferred tax liabilities on acquisition intangibles.

Financing and treasury

The Group's operations are financed by committed bank facilities, retained profits and equity. During the period, the Group agreed a new term loan facility of £375m to assist with the acquisition of AOL's UK business. This facility, which has an initial term of five years ending in October 2011, was arranged by HSBC plc, ING Bank NV, London Branch, and The Royal Bank of Scotland PLC. The terms of the new facility are similar to our other committed bank facilities and the covenant packages are identical. The Group was in compliance with the covenant conditions of all facility agreements at the period end.

In addition to committed facilities, the Group has a number of uncommitted loan facilities, overdrafts and guarantee lines – all technically repayable on demand – which enable it to optimise cash management efficiency, particularly at times of peak working capital requirements. Cash and investments held for insurance purposes of approximately £79.8m (2006: £77.0m) are not immediately available to the Group to offset borrowings. These funds are invested to maximise returns whilst ensuring at all times that such investments are within acceptable risk parameters.

Funding of our subsidiaries is arranged centrally with an emphasis on tight cash control and efficient cash management. All cross-border funding is provided on an arm's length basis and currency risk is hedged using foreign exchange swaps or currency borrowings, as appropriate, at all times. Other than through inter-company loans and capital funding, balance sheet translational risk is not hedged against adverse movements in exchange rates and the results of any such movements are taken to reserves. The Group is exposed to limited cross-border transactional commitments and, where significant, these are hedged at inception using forward currency contracts. In some circumstances, particularly for highly volatile currencies, the Group also hedges future currency commitments, which are accounted for as cashflow hedges.

Treasury policy permits the use of long-term derivative treasury products for the management of currency and interest rate risk and the Group's interest rate exposures are monitored regularly. The Group does not trade or speculate in any financial instruments.

Return on capital employed

Total shareholders' funds at March 2007 were £689.6m, compared to £619.0m at March 2006. After taking into account average net debt, and adjusting for the amortisation of acquisition intangibles and goodwill arising on historic minority acquisitions, the Group generated a return on capital employed of 12.1% (2006: 16.9%), the decrease reflecting the start-up losses in the period on Free Broadband and Virgin Mobile France.

Assuming a weighted average cost of capital for the period of 6.8% (2006: 6.6%), this represents an economic value added of £56.6m (2006: 69.4m) or 5.4% (2006: 10.3%).

Roger Taylor,
Chief Financial Officer

Principal Risks and Uncertainties

As discussed in the Corporate Governance section on pages 22 to 24 of this report, the Group has a dedicated Risk and Internal Audit function, reporting to the Board, that continuously assesses and monitors the key risks to the business. The table below summarises the more material risks to the Group, and how we seek to mitigate them in the day-to-day running of the business.

Operational risks

RISK AREA	POTENTIAL IMPACT	MITIGATION
Competitive environment	Loss of market share and erosion in margins from increased competition.	We have always focused on reinvesting the benefits of our increasing scale into our customer proposition to keep barriers to entry high and to maximise value for our customers. Our pricing in both mobile retail and broadband reflects this strategy.
Brand perception	Reduction in customer loyalty and higher churn in our fixed line operations as a result of poor customer service.	We are investing significantly in improving current service levels at TalkTalk. This year we will introduce a new billing and customer management platform that will enhance our ability to provide high quality service to our customers.
Capacity and functionality of our IT and telecoms infrastructure	Failure to provide adequate service levels to customers or to manage back office processes.	Our investment in IT continues to grow in line with the increasing scale and complexity of our business. Telecoms investment will peak in the coming year, with further investment in later years addressing the increased bandwidth demands of customers.
Retention of key management	Lack of necessary expertise or continuity to execute strategy.	We have successfully attracted and retained high quality executive management through attractive incentive packages and wide-ranging career opportunities.

Financial risks

RISK AREA	POTENTIAL IMPACT	MITIGATION
Revenue assurance	Profits and cash flow reduced through high levels of non-paying customers.	We have dedicated credit control functions to manage both residential and corporate debt, and credit checking processes that are continuously developed to minimise the risk of non-payment. Our network operator debtors are highly cash generative, well capitalised businesses.
Stock management	Financial results impacted by obsolete retail stock.	We have a very high turnover of stock and the subsidised business model stimulates end demand.
Exchange rates	Reported profits distorted by exchange rate movements; value of assets and liabilities similarly affected.	Exchange rate exposures are primarily to the Euro and Swiss Franc, which are historically stable currencies. Exposures to exchange rate movements are continuously monitored and hedging of specific transactions is undertaken where the risks are considered material.
Telecoms regulation	Fixed line business model compromised by changes to regulated market structure and pricing.	We share the goals of the telecoms and insurance regulators of competitive markets in which the customer has transparency and choice. We have a team of regulatory specialists who work with the relevant authorities towards these goals.
Investment in new areas	Capital invested in new business areas fails to make a return.	New business ventures and acquisition activity generally have a required hurdle rate of 15% post-tax internal rate of return. New ventures are managed in stages so that capital commitment is not significant until there is good visibility of a return.

Governance
Corporate Responsibility

The Group has a strong track record as a responsible employer, consumer and distributor and now also has senior executive sponsorship to help co-ordinate and plan our activities.

Our approach will be simple. We will aim to minimise our environmental impact through simple but effective actions across our stores and support facilities, and mobilise our employees to change working practices to support this drive. Importantly, we will also engage with customers, who are increasingly discerning about who they choose to do business with, based on factors other than our core principles of value and service. We are developing a range of solutions that will educate customers and give them practical ways to reduce their own environmental impact. We will give a full update on these initiatives next year.

Charity, community and employee activities
The Carphone Warehouse continued its support of its two partner charities, Barnardo's and Get Connected, with a wide range of activities. TalkTalk, The Carphone Warehouse's fixed line service, has continued to partner with TreeHouse, the national charity for autism education, raising funds and developing best practice for autism education throughout the UK.

At The Carphone Warehouse we recognise that there are many different issues that affect the lives of our employees and have also created The Carphone Warehouse UK Foundation to support those individual charities and local community projects nominated by employees.

The Carphone Warehouse supports both its charitable partners and The Foundation in many ways, from donating gifts for sales and raffles, offering extra holiday for employees undertaking overseas treks and other specific volunteering activities, to donating profits from the sale of accessories over the Christmas period and Give As You Earn through the payroll.

Get Connected
Get Connected is a free and confidential helpline that can find and connect vulnerable young people to the best services in the UK, to assist them with their issues. The Carphone Warehouse provides office space and accommodation for the service and its volunteers, phone lines and IT support as well as offering employees the opportunity to earn extra holiday or have matched time off to volunteer.

In 2006 The Carphone Warehouse continued its seven-year relationship with Get Connected offering additional marketing support to its extensive charitable efforts, including free advertising and direct mailings to its customer base.

In February 2007 Andrew Harrison, a trustee of the charity, hosted its third charity auction at the Pigalle Club, Piccadilly, London, with the continued support of suppliers and partners. Those unable to attend the event were also able to bid on-line, and we raised a total of £186,000, almost double the funds raised in the previous year.

The funds raised from the auction and employees' individual efforts will allow Get Connected to help an even greater number of young people throughout the UK by developing an on-line presence and expanding their web-chat service to match the hours of the free phone line service.

TreeHouse
Autism is a life-long neurological condition affecting basic communication skills in one in 100 children. At its most profound, children with autism may never acquire spoken language, require 24-hour care and may be perceived to be living in a world of their own. TreeHouse was established to provide specialist education for children with autism and provide an educational centre of excellence for children with autism and related communication disorders.

The shared vision of TalkTalk and TreeHouse of helping people to communicate has made this a perfect charity partnership. TalkTalk has committed to continue to donate 1 penny from every call made to its 118111 directory enquiries service and has provided extensive marketing support through activity like bill inserts and direct mailing to its customers.

Since its foundation in 1997, TreeHouse has occupied six temporary homes in North London. In 2005, TreeHouse launched an appeal to raise £11.5 million to construct the first National Centre for Autism Education. This permanent building will house extended school facilities for autistic children in London and will also be home to a national teaching facility, where services are piloted and evaluated and best practice shared by practitioners throughout the UK.

TalkTalk is committed to helping TreeHouse to see this ambition realised.

Borneo Trek
Having the opportunity to visit one of the last unspoilt places on earth, raising funds for The Carphone Warehouse UK Foundation and gaining hands-on experience in a local community project through the annual charity trek, is a highlight for both employees and charities.

Held in May 2006, this year's trek took 53 employees to Borneo with the goal of building the world's first ever tracking station for the rehabilitation back into the wild of previously orphaned Orang-utans. Each employee raised approximately £2,250 to fund their trek with a total of £40,000 being raised for The Carphone Warehouse Charity Partnerships in the UK.

The success of this self analysis and resulting activities are reflected in the awards The Carphone Warehouse has won in the last year.

Sunday Times Best Large Company to Work For 2007
- 13th Best Big Company To Work For

Mobile News 2007
- Large Retailer Of The Year
- Highly Commended Customer Service

What Mobile 2006 (reader voted)
- Best High Street Retailer
- Best Online Retailer

Mobile Choice 2006
- Best High Street Retailer

Employees

Our Human Resources teams continue to review and improve processes to ensure that the work environment, recruitment, training processes and employee satisfaction are of the highest standard. Historically, one of the key tools we have used to assess these important areas is BackChat, a completely anonymous online questionnaire that enables us to examine the attitudes of every employee to all aspects of the business.

The 2006 survey continued to produce encouraging results, but also highlighted some areas for further development. The overall response rate across the entire Group was 82%. On the positive side, the most favourable scores were recorded in the sections on management style and the day-to-day job, with 87% of employees understanding how their work contributes towards the success of the company. 75% of employees said they had received training in the last 12 months, up three percentage points on the previous year.

Disappointing scores were recorded in areas such as quality of work life (49%) and communication and support (51%). Partly in response to this feedback, we have launched a range of new policies this year. New fathers will now have much greater flexibility over when they take their paternity leave. Employees on maternity leave can now come in for "keeping in touch" days, enabling them to come into work on occasional days without breaking their maternity leave, and when they do return they can do so in a staged process, building up their hours over time. The goal is to keep employees engaged and involved, and to aid the process of returning to work.

For 2007 we will be evolving the BackChat process and moving the focus from employee satisfaction towards employee engagement. We are also changing the timing of the survey so that it is more aligned with the business planning process and actions can be incorporated into overall business plans.

Diversity and inclusion

The Group recognises the importance of diversity and inclusion, and has systems in place to recruit employees of different genders, ages, disabilities and ethnic origins. The Group is implementing an online recruitment system and is also committed to putting in systems to measure diversity across the Group. Gender and race are, as last year, voluntarily recorded via BackChat to enable us to monitor inclusion and to recruit from specific groups that we feel are under-represented.

Regulatory and social responsibilities

We continue to operate in a relatively low impact industry and our meetings and discussions with Group businesses on social, environmental and ethical matters give us confidence that both the risks to our business in these areas are relatively low, and also that controls are in place to ensure compliance with new laws and regulations where necessary.

Below we have identified the key regulatory and social risks currently affecting the Group. We have aimed to focus our update on areas where there has been a change in regulation or our approach during the year, or where new regulation is on its way.

BackChat, our annual employee survey, enables us to measure the impact of actions taken to improve the working environment

Mobile phones and driving

During the year we commissioned some market research into attitudes on mobile phone usage while driving. The results indicated that legislation had had little impact on drivers' habits, with 43% of men and 26% of women still holding a mobile phone while driving.

In February 2007, an update to the Road Safety Bill in the UK came into force, increasing the penalty for using a mobile phone while driving. Offenders now face three penalty points on their licence and a fine of £60. We raised awareness of the changes with our customers, reiterating our "hang up or go hands-free" message and running promotions on hands-free equipment.

Waste Electrical and Electronic Equipment Directive & Restriction of the Use of Certain Hazardous Substances

The Waste Electrical and Electronic Equipment ("WEEE") Regulations came into force on 2 January 2007. These regulations transpose the EU WEEE

Corporate Responsibility continued

Directive, which aims to minimise the impact of electrical and electronic goods on the environment, by increasing re-use and recycling and reducing the amount of WEEE going to landfill. It seeks to achieve this by making producers responsible for financing the collection, treatment, and recovery of waste electrical equipment, and by obliging distributors to allow consumers to return their waste equipment free of charge ("Take-back").

The Carphone Warehouse Limited and TalkTalk Telecom Limited are subject to the regulations both as producers and distributors. The specific obligations are being rolled out in separate stages; the registration and labelling requirements commenced in March 2007 and on 1 July 2007 the remainder of the obligations will come into force, including financing, record-keeping and Take-back.

Adult content
We take the risks associated with illegal or abusive content very seriously. In our Distribution business, we have a code of practice in the UK to apply to all Carphone Warehouse branded web channels. As well as clearly classifying content as suitable for adults only, we include pre-requisites to purchasing, such as only selling via credit card to ensure that a customer is over 18.

In our growing broadband operations, we have recently opened a dedicated Abuse Management bureau in our Stornoway call centre. The bureau is staffed by trained and vetted individuals and deals with issues arising from illegal or abusive content on the TalkTalk network, and any other content that is alleged to be in breach of our acceptable usage policy. It liaises directly with the Internet Watch Foundation (IWF) and, where necessary, the relevant law enforcement agencies.

In addition, a new platform called StreamShield will shortly be deployed. This performs upstream filtering of a list of banned websites as specified by IWF.

Environment
Our stores have a requirement to ensure that all packaging and store waste is returned to our warehouses to be recycled and re-used. The UK monthly buyers' guide is made from chlorine free paper and from wood from sustainable forests.

In addition, the Group has made a commitment to ensure that all cleaning products used in its stores and at the Support Centre are non-toxic and eco-friendly. We actively promote non-legislative recycling initiatives encouraging the recycling of paper, toner cartridges, batteries and drinks cans.

Handset recycling
In an era of global warming and dwindling natural resources, we are very concerned with the disposal of redundant mobile handsets and offer a service to dispose of old phones responsibly and raise valuable funds for charity. For every handset received, The Carphone Warehouse is donating £10 to The CPW Charity Partnership.

In the last year, 10,000kg of old phones were sent to The Carphone Warehouse's recycling centre. When the phones arrive they are separated into handsets that can be re-sold and those that need to be recycled – typically around 10% of the total. No part of the recycled phone ends up in a landfill site: batteries are used to repair other handsets, metals are recovered for re-use and parts with no recovery value are incinerated to generate power.

Once impurities have been removed, the phone's plastics can be ground into a fine powder and fed into an injection moulder, producing products ranging from coathangers to garden benches.

Carbon emissions
We have almost completed our far reaching review of energy and utilities consumption and related CO_2 emissions throughout the UK. We are now in negotiations with carbon offsetting schemes and alternative fuel providers for the retail distribution fleet, and we expect to complete agreements before the end of 2007. We have made considerable moves to reduce our carbon footprint through a series of energy efficient measures in both our retail and support functions, and our retail stores are now amongst the most innovative and efficient in the sector. A full report, incorporating emissions measurement and targets, will be included in next year's annual report.

Mobile phones and health
Throughout the year we have continued to support the Government in their research into the effects of mobile phones on health. Despite the recent conclusion of their three year investigation, which has found that mobile phones are unlikely to damage health, we will continue to support the second phase of research over the next three years. Additionally, The Carphone Warehouse continues to provide customers with all of the information on mobile phones and health concerns to enable them to make informed decisions. An independent and extensive health fact sheet is available in our stores and on our website. We also continue to list specific absorption rates for every handset in our Buyers' Guide every month, and on our website.

Board of Directors and Group Advisors

Executive Directors

Charles Dunstone, Chief Executive Officer

Age 42. Founder and Chief Executive Officer of the Group since 1989. He is also responsible for new business development and strategic initiatives. He is a Non-Executive Director of HBOS PLC, The Daily Mail and General Trust PLC, and Independent Media Distribution PLC. He is also Chairman of The Prince's Trust Trading Board and a member of its Council.

Roger Taylor ACA, Chief Financial Officer

Age 42. Chief Financial Officer of the Group since January 2000. He is responsible for controlling the Group's finance function, financial reporting and procedures. He also manages the Group's investor relations and corporate finance function and is responsible for corporate development and strategic initiatives. He became a member of the Sport England Risk and Assurance Committee in 2005.

Jim Dale FCA, Executive Chairman of Carphone Warehouse Assurance Limited

Age 67. Joined the Group in January 1997 and appointed to the Board in March 2001. His resignation from the Board was announced on 5 June 2007. He was until this date responsible for the management of the Group's insurance operations.

David Goldie, Chief Executive Officer, Telecoms

Age 43. Joined the Group in November 2002 and appointed to the Board in July 2005. He has previously been Managing Director of Martin Dawes Telecommunications Limited which was sold to BT Cellnet in 1999, and then Chief Executive Officer of Opal Telecom which was acquired by The Carphone Warehouse in 2002. He is now the Chief Executive Officer of the Telecoms division, responsible for planning and executing the Group's fixed line telecoms and broadband strategy. He is a Non-Executive Director of The Cheshire Building Society.

Andrew Harrison, UK Chief Executive Officer

Age 36. Appointed to the Board in April 2006. He joined the Group in July 1995 as Strategy Manager, and became Commercial Director for the UK in 1998. He was appointed Chief Executive Officer of the UK business of The Carphone Warehouse in July 2001.

Non-Executive Directors

John Gildersleeve, Chairman

Age 62. Joined the Board in June 2000 and became Non-Executive Chairman in July 2005. He was an Executive Director of Tesco PLC until he retired in February 2004. He is currently Chairman of EMI Group PLC. He was also Chairman of Gallaher Group Plc until April 2007. Prior to this he was a Non-Executive Director of Lloyds TSB Bank PLC from 1994 to 1997 and Vodafone Group PLC from 1998 to 2000.

David Ross ACA, Deputy Chairman

Age 41. He became Deputy Chairman in July 2005. Prior to this, he was Chief Operating Officer between 1990 and July 2003 and was responsible for the strategic development of the Group's activities in mainland Europe. He is Chairman of National Express Group PLC and Gondola Holdings PLC. He is also a Non-Executive Director of Big Yellow Group PLC and Cosalt PLC. He was also Non-Executive Director of Trinity Mirror PLC until May 2007.

Sir Brian Pitman

Age 75. Joined the Board in January 2001 and is the Senior Independent Director. A senior adviser to Morgan Stanley, he is also Non-Executive Director of Tomkins PLC, ITV PLC, Singapore Airlines Limited and Virgin Atlantic Airways Limited. He retired in 2001 from Lloyds TSB Group PLC, where he was Chief Executive for 13 years and Chairman for 4 years. He was also Chairman of NEXT PLC from 1998 to 2002.

Adrian Martin ACA

Age 57. Joined the Board in November 2000. He is Chief Executive of Reynolds Porter Chamberlain LLP, a Non-Executive Director of M & C Saatchi PLC and an Independent Director of The Disasters Emergency Committee. Previously he was UK Managing Partner of BDO Stoy Hayward, where he was also Chairman of its International Policy Board.

David Mansfield

Age 53. Joined the Board in September 2005. He is an Executive Director of Ingenious Media PLC, a specialist media and entertainment investment and advisory group; and an advisor to Edleman, a global public relations company. He was previously Chief Executive of Capital Radio Plc and latterly GCap Media PLC, the UK's largest commercial radio company. He is a fellow of the Radio Academy.

Steven Esom

Age 46. Joined the Board in September 2005. He is director of food at Marks & Spencers and previously he was Managing Director of Waitrose, the supermarket division of the John Lewis Partnership, from 2002 to April 2007. Prior to joining Waitrose, he spent the major part of his career in various buying roles with J Sainsbury PLC.

Baroness Morgan of Huyton

Age 47. Joined the Board in November 2005. From November 2001 until May 2005, she was Director of Government Relations at 10 Downing Street. Prior to this she was Political Secretary to the Prime Minister from 1997 to 2001, and was appointed Minister for Women and Equalities in 2001. In 2006 she was appointed a Board Member of the Olympic Delivery Authority and was also appointed as a Non-Executive Director of Southern Cross Healthcare Group PLC.

David Grigson

Age 52. Joined the Board in April 2007. He is currently Chief Financial Officer of Reuters Group PLC. Prior to joining Reuters in 2000, he was Group Finance Director of Emap PLC and Chairman of Emap Digital.

Company Secretary

T S Morris

Board Committees

Audit Committee:

Adrian Martin (Chairman)
Sir Brian Pitman
David Mansfield
Steven Esom
Baroness Morgan
David Grigson

Remuneration Committee:

Sir Brian Pitman (Chairman)
Adrian Martin
David Mansfield
Steven Esom
Baroness Morgan
David Grigson

Nomination Committee:

John Gildersleeve (Chairman)
David Ross
Sir Brian Pitman
Adrian Martin

Advisors

Principal Bankers

HSBC Bank PLC
ING Bank NV
Deutsche Bank AG
Royal Bank of Scotland PLC

Legal Advisors

Ashurst Morris Crisp
Clyde & Co
DLA
Linklaters
Osborne Clarke

Corporate Brokers

Credit Suisse First Boston (Europe) Limited
1 Cabot Square
London E14 4QJ

UBS
1 Finsbury Avenue
London EC2M 2PP

Registrars

Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA

Auditors

Deloitte & Touche LLP, London

Registered Office

1 Portal Way
London W3 6RS
Registered number: 3253714

Corporate Governance

Introduction

The Board of Directors recognises the importance of high standards of corporate governance. This Report and the Remuneration Report set out on pages 25 to 30 explain that the Company has complied during the period with the principles contained in the Combined Code on Corporate Governance ("Code") except as stated to the contrary in this Report. In accordance with the Listing Rules issued by the Financial Services Authority, the relevant parts of this Report have been reviewed by the auditors and their opinion is contained in the Independent Auditor's Report on page 33.

Board of Directors

Composition of the Board

There are currently five Executive Directors and eight Non-Executive Directors (including the Non-Executive Chairman and the Non-Executive Deputy Chairman). Biographies of each of the Directors, their responsibilities and Board Committee memberships are set out on page 21.

The following changes to the Board have taken place since last year's Annual Report:

The appointment of Andrew Harrison as an Executive Director together with the appointments of Baroness Morgan, Steven Esom and David Mansfield all as Non-Executive Directors were approved at the Annual General Meeting held on 27 July 2006.

Between the period of 2 April 2006 and 24 April 2007 the Board comprised five Executive Directors and seven Non-Executive Directors (including the Non-Executive Chairman and Non-Executive Deputy Chairman). All of the Non-Executive Directors excluding the Chairman and Deputy Chairman were considered to be Independent Non-Executive Directors. Throughout the period from 2 April 2006 and 24 April 2007 half of the Board, excluding the Non-Executive Chairman and Non-Executive Deputy Chairman, were Independent Non-Executive Directors as required by the Code. These were Sir Brian Pitman, Baroness Morgan, David Mansfield, Steven Esom and Adrian Martin. On 24 April 2007, the Company announced the appointment of David Grigson as a Non-Executive Director with immediate effect, meaning the Board then comprised five Executive Directors and eight Non-Executive Directors. The appointment of David Grigson will be proposed to the shareholders at the Annual General Meeting to be held on 26 July 2007 ("AGM") and he is also considered to be an Independent Director.

On 5 June 2007, the Company announced that Jim Dale would stand down as a Director of the Company with immediate effect.

Following all of the above changes to the Board and as from the AGM, the Board will comprise four Executive Directors and eight Non-Executive Directors (including the Non-Executive Chairman and the Non-Executive Deputy Chairman). Six of these Non-Executive Directors, excluding the Non-Executive Chairman and Non-Executive Deputy Chairman, are considered to be Independent Non-Executive Directors. These are Sir Brian Pitman, Baroness Morgan, David Mansfield, Steven Esom, Adrian Martin and David Grigson.

Charles Dunstone is the Chief Executive Officer, John Gildersleeve is Non-Executive Chairman, David Ross is Non-Executive Deputy Chairman and Sir Brian Pitman is the Senior Independent Director.

All new Directors went through a formal process of induction principally carried out by the Company Secretary. All Directors are subject to election by shareholders at the first Annual General Meeting following appointment and thereafter to re-election at least every three years. Each Executive Director and David Ross has a service contract that can be terminated by either the Company or the Director on 12 months' notice or less.

The Non-Executive Directors, apart from David Ross, have three year periods of appointment, the terms of which are substantially in the same format as suggested by the Code, with three month notice periods and no compensation for loss of office. Further details on each Director's remuneration, including the dates of their contracts with the Company, are set out in the Remuneration Report on pages 25 to 30.

Board meetings

The Board meets formally at least six times a year, with additional meetings as required. The Board met formally seven times during the period (including a strategy day). All Directors formally attended these meetings with the exception of Steven Esom and Andrew Harrison who were both absent from the meeting held on 25 May 2006, Jim Dale who was absent from the meeting held on 25 January 2007 and David Ross who was absent from the meeting on 29 March 2007. These absences were due to prior engagements that could not be changed with the exception of Jim Dale who had to attend a family funeral. The Company Secretary ensures that all Board papers are sent out to non-attending Directors and that, where possible, any comments they have are received beforehand so that they can be expressed at the meeting.

Operation of the Board

The wide range of experience and expertise of the Non-Executive Directors, combined with the skill sets of the Executive Directors, provides vast experience of retailing, mobile and fixed line telecommunications and general business experience, strong personal skills and independence of thought and perspective. The overriding responsibility of the Board is to provide entrepreneurial and responsible leadership to the Group within a framework of prudent and effective controls. These controls allow for the key issues and risks facing the business to be assessed and managed. The Board determines the overall strategic direction for the Group, reviews management performance and ensures that the necessary financial and human resources are in place to enable the Group to meet its objectives. The Board is comfortable that the necessary controls and resources exist within the Group to enable these responsibilities to be met. The Board ensures that the Directors, and in particular the Non-Executive Directors, develop an understanding of the views of major shareholders about the Company. The Company regularly communicates with major shareholders and has a dedicated internal investor relations department. Briefings on market activity, together with the views of shareholders and analysts on the Company, are also regularly provided to the Board.

There is a clear and documented division of responsibilities between the roles of the Chairman and the Chief Executive Officer. There are also documented schedules of matters reserved to the Board and matters delegated to Committees of the Board. Such reserved matters include decisions on strategic and policy issues, the approval of published financial statements and major acquisitions and disposals, authority levels for expenditure, treasury and risk management policies. Strategic and policy issues are reviewed annually at a combined Board and senior executive strategy day.

Performance evaluation

During the period the balance of skills, knowledge and experience of the Directors was reviewed. The Board, and each individual Director, also undertook performance evaluations. Using the Higgs 'Suggestions for Good Practice' as guidance, the individual Directors initially completed separate questionnaires. The results were collated and analysed by the Company Secretary, who prepared reports as appropriate to the Chairman, the Senior Independent Director, the Chief Executive Officer and the Board as a whole. The areas covered included the role of the Executive and Non-Executive Directors, the Board, the Board Committees, the Chairman of the Company, preparation for and performance at meetings, the effectiveness of each Director, leadership, culture and corporate governance. The results were then considered by the Board as a specific item of business. The Board proposes that these exercises or similar ones continue to be carried out each year.

Following such performance evaluation the Chairman confirms that all those Non-Executive Directors seeking election or re-election at the AGM continue to be effective and demonstrate a commitment to the role, including having time to attend all necessary meetings and to carry out other appropriate duties.

The Chairman meets regularly with all the Independent Non-Executive Directors usually in the evening prior to a Board meeting. This provides the opportunity to raise any questions regarding the performance of the Executive Directors or in respect of any other matters.

The Senior Independent Director also met with the Non-Executive Directors, in the absence of the Chairman, to assess the Chairman's effectiveness, having first reviewed the results of a performance evaluation questionnaire completed by all the Directors apart from the Chairman. The Board is of the opinion that the Chairman had no other significant commitments during the period that would have affected his performance in his role.

External appointments

The Board supports Executive Directors taking up Non-Executive Directorships as part of their continued development, and the Board believes that this will ultimately benefit the Company. Further details are provided in the Remuneration Report on pages 25 to 30.

Board Committees

There are five key Board Committees: Audit, Remuneration, Nomination, Insurance Compliance and Telecoms Regulatory, the last two Committees having been created during the period. The Committees are provided with sufficient resources via the Company Secretary and, where necessary, have direct access to independent professional advisors to undertake their duties.

Audit Committee

The Committee currently comprises the following Independent Non-Executive Directors: Adrian Martin (Chairman), Sir Brian Pitman, Baroness Morgan, David Mansfield, Steven Esom and, following his appointment on 24 April 2007, David Grigson. Both Adrian Martin and David Grigson are deemed by the Board to be the Committee members with recent and relevant financial experience. All of the Committee members have extensive commercial experience. The Committee met formally four times during the period. All members attended each meeting, with the exception of Sir Brian Pitman who was absent from the meeting on 26 October 2006 due to a prior engagement that could not be changed and David Grigson, who was only appointed on 24 April 2007.

The Chairman of the Committee updates the Board on any significant issues that may have arisen at the Board meeting following each Committee meeting.

During the period, all the requirements of the Code in respect of the Committee were met. The work undertaken by the Committee is described within the following sections of this Report.

The Group's Chief Financial Officer and other senior management attend Committee meetings by invitation of the Committee. Representatives of the Company's external auditors and the Group Director of Risk also attend these meetings by invitation of the Committee. The external and internal auditors have direct access to the Committee during formal meetings and time is set aside for them to have private discussions with the Committee, in the absence of management.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Company's website, comply with the Code. During the period, the formal calendar of items considered at each Audit Committee meeting within each annual cycle embraced the Code requirements to:

- monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, including reviewing significant financial reporting judgements contained in them;
- review the Company's internal financial controls and its internal control and risk management systems and to make recommendations to the Board;
- review the Company's arrangements by which employees may raise concerns in confidence;
- monitor and review the effectiveness of the Company's internal audit function;
- make recommendations to the Board in relation to the appointment, re-appointment and removal of external auditors and to approve their remuneration and terms of engagement;
- review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- review the Company's policy on the engagement of the external auditors to supply non-audit services. In this context the Committee's remit requires it to report to the Board identifying any matters in respect of which it considers that action or improvement is needed and to make recommendations as to the steps to be taken.

In the light of the assessments and review undertaken, the Committee recommended to the Board that Deloitte & Touche LLP be retained as auditors of the Company. This recommendation was endorsed by the Board.

The policy relating to the provision of non-audit services by the external auditors specifies the types of work from which the external auditors are excluded; for which the external auditors can be engaged without referral to the Committee; and for which a case-by-case decision is required. In order to safeguard the auditors' objectivity and independence, the ratio of non-audit fees to audit fees is monitored by the Committee within an overall limit set by the Board on the recommendation of the Committee.

A statement of fees paid or accrued for services from the external auditors during the period is set out below:

	2007 £'000	2006 £'000
Audit services:		
– statutory audit	**1,375**	1,115
– non-statutory audit	**–**	14
Tax services:		
– compliance services	**–**	7
– advisory services	**117**	115
Other services	**53**	22
Total	**1,545**	1,273

Certain non-audit services are pre-approved by the Committee depending upon the nature and size of the service. Tax services comprise compliance services and technical advice associated with relevant UK and international fiscal laws and regulations and, in particular, assessment of the potential implications of proposed corporate transactions or restructuring.

Having undertaken a review of the non-audit related work, the Committee has satisfied itself that the services undertaken during the period did not prejudice the external auditors' independence.

At each of its meetings the Committee reviewed and considered reports from the Group Director of Risk on the status of the Group's risk management systems, findings from the internal audit function concerning internal controls, and reports on the status of any weaknesses in internal controls identified by the internal or external auditors.

Remuneration Committee

The Committee currently comprises the following independent Non-Executive Directors: Sir Brian Pitman (Chairman), Baroness Morgan, David Mansfield, Steven Esom, Adrian Martin, and, following his appointment on 24 April 2007, David Grigson.

The Committee met formally five times during the period and each member, except David Grigson who was only appointed on 24 April 2007, attended every meeting with the exception of Steven Esom who was absent from the meeting on 26 May 2006 and Baroness Morgan who was absent from the meeting on 28 September 2006. Both absences were due to prior engagements that could not be changed. The Company Secretary ensures that all Committee papers are sent out to non-attending Directors and that, where possible, any comments they have are received beforehand so that they can

Corporate Governance continued

be expressed at the meeting. Other Directors, the Company Secretary, the Group Director of Human Resources, the Head of Compensation and Benefits and advisors attended by invitation only. A detailed description of the Committee's remit and work during the period is contained in the Remuneration Report on pages 25 to 30. Its terms of reference comply with the Code, are available on request from the Company Secretary and are published on the Company's website. The Chairman of the Committee updates the Board following each Committee meeting.

Nomination Committee

During the period the Committee comprised the following Non-Executive Directors: John Gildersleeve (Chairman), David Ross, Sir Brian Pitman and Adrian Martin. The Committee meets as and when required and met once formally during the period to discuss succession planning and a consideration of appropriate appointments to the Board. The Committee also met in April 2007 where it considered and recommended that David Grigson be appointed as an Independent Non-Executive Director. Spencer Stuart was used as an external search consultancy for the appointment of future Independent Non-Executive Directors and their work was carried out in conjunction with potential candidates sourced by the Group directly. In April 2007 the appointment of David Grigson was then unanimously approved by the Board.

The Committee's terms of reference comply with the Code and are available from the Company Secretary on request and are published on the Company's website. The Committee is responsible for succession planning at Board level, overseeing the selection and appointment of Directors, regularly reviewing the structure, size and composition of the Board and making its recommendations to the Board. It assists in evaluating the commitments of individual Directors and the balance of skills, knowledge and experience on the Board.

Insurance Compliance Committee

The Committee is chaired by Baroness Morgan and is attended by Adrian Martin and senior executives. The role of the Committee is to review the Group's compliance with regulatory matters concerning the sale of insurance products to customers and to provide the Non-Executive Directors, through Baroness Morgan, with visibility of compliance issues. The Committee met formally three times during the period. The Chairman of the Committee also updates the Board following each Committee meeting.

Telecoms Regulatory Committee

The Committee is chaired by David Mansfield and is attended by David Goldie, the Company Secretary and other senior executives. The role of the Committee is to review the Group's compliance with fixed line regulatory matters, consumer regulation across the fixed and mobile businesses including Trading Standards, Data Protection and Advertising Standards, and to provide the Non-Executive Directors, through David Mansfield, with visibility of these compliance issues. The Committee met formally twice during the period. The Chairman of the Committee also updates the Board following each Committee meeting.

Other Committees

The Company also intends to create a new Group Finance Committee during the next year to formalise the regular meetings held between senior executives of the group finance, tax, treasury and legal departments. Further details will be provided in next year's Annual Report.

Risk management and internal control

The Company has established a risk management programme that assists management throughout the Company to identify, assess and mitigate business, financial, operational and compliance risks. The Board views management of risk as integral to good business practice. The programme is designed to support management's decision-making and to improve the reliability of business performance.

The risk management programme is supported by a dedicated team of risk specialists, including internal auditors, who comprise the Group Risk and Assurance function. To ensure that all parts of the Company have a good understanding of risk, members of this team have conducted risk workshops and reviews within each of the main operating divisions in the past year, culminating in an assessment of key business risks by the Executive Directors and senior management. These risk assessments have been wide-ranging, covering risks arising from the regulatory environment, strategy, counter-parties and organisational change associated both with major projects and with acquisitions. The risk management process operates throughout the Company, being applied equally to the main business divisions and corporate functions.

The output from each annual assessment is a list of key strategic, financial, operational and compliance risks. Associated action plans and controls to mitigate them are also put in place where this is possible and to the extent considered appropriate by the Board taking account of costs and benefits. Changes in the status of the key risks and changes to the risk matrix are reported regularly to the Audit Committee and at each Board Meeting.

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above. The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report and financial statements. The effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the guidance in the Turnbull Report. These systems are also refined as necessary to meet changes in the Group's business and associated risks.

The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of laws and regulations.

The Board has conducted an annual review of the effectiveness of the systems of risk management and internal control in operation during the year and up to the date of the approval of the Annual Report and financial statements and this was approved by the Audit Committee and the Board.

Communication with investors

The Board believes it is important to explain business developments and financial results to the Company's shareholders and to understand any shareholder concerns. The principal communication media used to impart information to shareholders are news releases (including results announcements) and Company publications. In all such communications, care is taken to ensure that no price sensitive information is released.

The Chief Executive Officer and Chief Financial Officer have lead responsibility for investor relations. They are supported by a dedicated investor relations department that, amongst other matters, organises presentations for analysts and institutional investors. There is a full programme of regular dialogue with major institutional shareholders, fund managers, analysts, retail brokers and credit investors, upon which the Chairman ensures that the Board receives regular updates at Board meetings. The Board also receives periodic reports on investors' views of the performance of the Company. All the Non-Executive Directors and, in particular, the Chairman and Senior Independent Director, are available to meet with major shareholders, if such meetings are required. Further financial and business information is available on the Company's website, www.cpwplc.com.

The Company also communicates with shareholders through the Annual General Meeting, at which the Chairman gives an account of the progress of the business over the last year, and a review of current issues, and provides the opportunity for shareholders to ask questions.

Remuneration Report

Compliance
This Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("Regulations") and the Combined Code on Corporate Governance ("Code"). The constitution and operation of the Remuneration Committee are in compliance with the Code. In framing its remuneration policy the Committee has given full consideration to the matters set out in Schedule A of the Code. As required by the Regulations, a resolution to approve this Report will be proposed at the Annual General Meeting to be held on 26 July 2007 ("AGM").

The Regulations require the Company's auditors to report to the members on the "auditable part" of this Report (marked *) and to state, in their opinion, that this part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

Remuneration Committee
Responsibility for the establishment of overall remuneration policy for the Group lies with the Board of Directors. The Remuneration Committee is responsible for making recommendations to the Board on the remuneration of the Chairman, Executive Directors and senior managers. The terms of reference of the Committee are available on the Group's website (www.cpwplc.com) or on request from the Company Secretary.

The Committee's current composition is Sir Brian Pitman (Chairman). Steven Esom, David Mansfield, Baroness Morgan, Adrian Martin and David Grigson (who was appointed to the Committee on 24 April 2007) all of whom are Independent Non-Executive Directors. None of the members of the Committee has any personal financial interest, other than as shareholders, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-memberships and no day-to-day involvement in running the Group's business.

Mercer Human Resource Consulting ("Mercer") were appointed by the Committee as lead advisors in January 2007 and conducted a total reward survey for Executive Directors and other senior managers. Mercer have no other connection with the Group. Deloitte & Touche LLP ("Deloitte") provided advice to the Committee on employment tax and the administration of share option and SAYE schemes. Deloitte are the Group's auditors and provide other services to the Group as set out in the Corporate Governance Report on pages 22 to 24. Advice was also provided by New Bridge Street Consultants LLP in relation to the valuation of share schemes. The Deputy Chairman, the Group Director of Human Resources and the Company Secretary also provided internal advice in respect of matters raised by the Committee. No Director nor any person advising the Committee plays a part in any discussion about his or her own remuneration.

Remuneration policy
The primary aim of the Committee is to ensure that remuneration aligns the interests of management and shareholders and reinforces behaviour which will lead to the continued long-term development of the business.

The Committee makes its recommendations to the Board by taking into account:

- The experience of Executive Directors and other senior managers;
- The Group's competitiveness in the market place, assessed through independent external market comparisons;
- The growing international nature of the Group; and
- The development of new business streams and the added complexity to the business.

The growth of the Group has been such that it continues to be appropriate to compare against companies in the FTSE 100. Alongside this, a benchmark has been established of the 15 companies above and below the Company in terms of market capitalisation.

The overall remuneration policy is to provide competitive remuneration packages to attract, retain and motivate executives of the calibre required, and to align their interests with those of shareholders by relating a significant element of the remuneration package to specific performance measures. In particular, the Committee has recognised that the complexity of the Group continues to evolve and that the remuneration policy should be adjusted to reflect the calibre of executives needed to continue to develop and grow the business.

The approach is to set fixed remuneration at market median levels and to offer variable rewards, linked to the performance of the Group, which can provide significant overall levels of remuneration for exceptional performance and shareholder value creation. Approximately 72% of Executive Directors' total remuneration, including share awards, earned in the period was performance related. Charles Dunstone does not receive long-term incentive share awards.

Components of remuneration
The main fixed and performance–related elements of remuneration that can be awarded to Executive Directors are as follows:

- basic salary, benefits and pension contribution (fixed);
- annual performance bonus (variable);
- share options (variable); and
- Performance Shares (variable).

The Company operates a minimum shareholding policy, requiring Executive Directors to build up and retain a shareholding in the Company of at least 100% of their annual salaries.

Salaries and benefits
Executive Directors' basic salaries are reviewed annually and take into account the roles, responsibilities, performance and experience of the individuals and information obtained from published market data on the salary rates for similar positions in companies of a similar size. Salaries are reviewed on 1 July each year.

Following the most recent review, salaries from 1 July 2007 will be held at their current levels.

Remuneration Report continued

Annual Performance Bonus

The Company operates a bonus scheme designed to reflect the performance of the Group. Bonuses are governed by performance conditions set by the Remuneration Committee to ensure that maximum variable rewards are paid only for exceptional performance. The bonus scheme for the period ending 29 March 2008 will have targets based on improvements in Headline EPS (see note 11 to the financial statements) before tax, with a maximum payment of 200% of annual salary.

Annual Deferred Bonus Plan

In the period, Executive Directors and senior managers had the option of taking some or all of their cash bonus in the form of a deferred share award. The rights to deferred shares cannot be exercised for 12 months. Matching shares may also be awarded if the deferred share award is not exercised for up to a further two years. The number of matching shares awarded equates to 12.5% of the deferred amount at the beginning of each year. The share equivalent of dividends that would have been paid on the shares is added to the deferred share award each year. This scheme will be reviewed during the next year.

Share options

The Company has a share option scheme for Executive Directors and senior managers both in the UK and overseas. No options were granted to Executive Directors in the period ended 31 March 2007 and it is currently not envisaged that grants will be made to them in the forthcoming year. A UK savings-related share option scheme is open to all eligible employees in the UK, including Executive Directors. No Executive Director currently participates in the scheme.

Performance Share Plan

In July 2004, senior managers, including Executive Directors, received awards of Performance Shares (as defined in the Annual General Meeting on 28 July 2004). Further awards were made to certain individuals in the period ended 1 April 2006. These awards are subject to a mixture of Headline EPS and Total Shareholder Return (TSR) performance targets measured over a three or four year performance period. In December 2006 the Remuneration Committee awarded a further grant under the Performance Share Plan. The new award is subject to TSR performance targets measured against an initial performance period to 4 June 2010 and a subsequent performance period to 4 June 2011. The TSR calculation is independently calculated for the Remuneration Committee by Mercer.

Details of the grants to Executive Directors and the performance targets are set out in the share tables later in the Report.

Aggregate remuneration*

The total amounts of Directors' remuneration and other benefits (excluding pension contributions) were as follows:

Director	Basic salary/fees £'000	Taxable benefits £'000	Annual bonuses £'000	**2007 Total £'000**	2006 Total £'000
Executive					
J H Dale	143	9	148	**300**	386
C W Dunstone	525	21	550	**1,096**	1,343
D Goldie	269	15	275	**559**	742
A Harrison	215	22	225	**462**	n/a
G Roux de Bezieux	–	–	–	**–**	847
R W Taylor	338	15	350	**703**	892
Non-Executive					
M Dawes	–	–	–	**–**	9
S Esom	44	–	–	**44**	20
J Gildersleeve	200	–	–	**200**	186
D Mansfield	48	–	–	**48**	20
A Martin	55	–	–	**55**	49
Baroness Morgan	48	–	–	**48**	17
Sir B Pitman	57	–	–	**57**	48
D P J Ross	150	5	–	**155**	178
H R Snook	–	–	–	**–**	50
Aggregate emoluments	2,092	87	1,548	**3,727**	4,787

Notes

(i) The taxable benefits provided consist of a company car or car allowance, car insurance, fuel and private medical cover.

(ii) Annual bonuses for the period ended 31 March 2007 were accrued at the balance sheet date and will be paid in June 2007. For this period, the bonus was based on a range of stretching Headline EPS targets and an assessment of the implementation of Free Broadband. No bonus will be paid in respect of the implementation of Free Broadband and a bonus of 100% salary will be paid in respect of EPS achievement.

(iii) Steven Esom's fees were paid directly to his employer, Waitrose Limited.

The Remuneration Committee is satisfied that this bonus has provided an excellent link between reward and operating performance, and the creation of further shareholder value.

Pension contributions*

The schedule below sets out payments to defined contribution pension schemes on behalf of Executive Directors. Roger Taylor has a Self Invested Pension Plan; David Goldie and Andrew Harrison have a fixed amount of salary paid into defined contribution pension plans. Under both schemes, a fixed proportion of salary is paid by the Company together with a fixed proportion by the Executive Director and both amounts are invested on behalf of the Executive Director. Pension benefits are then funded by the total investment. Jim Dale has a similar scheme in the Isle of Man. Levels are reviewed annually against published market data. None of the Directors was a member of a defined benefit pension scheme during the period. Pension entitlements are based on basic salary only.

Director	**2007 £'000**	2006 £'000
J H Dale	**7**	6
D Goldie	**54**	48
A Harrison	**11**	n/a
G Roux de Bezieux	**–**	14
R W Taylor	**17**	15
Total	**89**	83

Share options*

Details of Directors' interests in options to buy shares in the Company are as follows:

Director	At 1 April 2006 or date of appointment	Exercised during the period	At 31 March 2007	Exercise price per share £	Exercisable from	Expiry date
J H Dale	200,000	(200,000)(iii)	–	1.50	19/05/2002	19/05/2010
	200,000		200,000	2.00	19/05/2002	19/05/2010
	222,222	(222,222)(iii)	–	0.90	06/06/2006	06/06/2013
	622,222	(422,222)	200,000			
A Harrison	88,000	(88,000)(iii)	–	1.25	21/05/2004	21/05/2011
	300,000	(300,000)(iii)	–	0.83	11/06/2005	11/06/2012
	266,666	(266,666)(iii)	–	0.90	06/06/2006	06/06/2013
	654,666	(654,666)	–			
R W Taylor	250,000	(250,000)(iv)	–	0.80	14/07/2000	01/02/2010
	500,000	(150,000)(iv)	350,000	1.00	14/07/2000	01/02/2010
	200,000		200,000	1.50	19/05/2002	19/05/2010
	200,000		200,000	2.00	19/05/2002	19/05/2010
	240,000		240,000	1.25	21/05/2004	21/05/2011
	500,000		500,000	0.83	11/06/2005	11/06/2012
	444,444		444,444	0.90	06/06/2006	06/06/2013
	2,334,444	(400,000)	1,934,444			

(i) Executive Directors may only exercise share options (and Performance Shares – see below) provided they remain in employment and hold a minimum of 100% of salary in shares or unexercised vested share options up until the date of exercise.

(ii) The market price per share was 276.8p as at 31 March 2007. The market price during the year ranged between 256.0p and 360.8p.

(iii) Exercised on 9 June 2006 when the market price was 330.0p.

(iv) Exercised on 27 June 2006 when the market price was 320.0p.

Remuneration Report continued

Performance Shares*

Details of Executive Directors' conditional right to receive nil priced options in the Company are shown in the following table:

			Granted during the period			
Name	Type of award	1 April 2006	Number of shares	Date of award	Share price on date of award	**31 March 2007**
J H Dale	Basic	250,000	–	–	–	**250,000**
	Stretch	250,000	–	–	–	**250,000**
	Super Stretch	250,000	–	–	–	**250,000**
D Goldie	Basic	850,000	151,654	4/12/2006	£2.72	**1,001,654**
	Stretch	450,000	303,309	4/12/2006	£2.72	**753,309**
	Super Stretch	450,000	303,309	4/12/2006	£2.72	**753,309**
A Harrison	Basic	250,000	124,081	4/12/2006	£2.72	**374,081**
	Stretch	250,000	248,162	4/12/2006	£2.72	**498,162**
	Super Stretch	625,000	248,162	4/12/2006	£2.72	**873,162**
R W Taylor	Basic	450,000	193,015	4/12/2006	£2.72	**643,015**
	Stretch	450,000	386,030	4/12/2006	£2.72	**836,030**
	Super Stretch	450,000	386,030	4/12/2006	£2.72	**836,030**

Notes

The Performance Shares at 1 April 2006 were granted in July 2004 and June 2005.

For awards made in July 2004 the performance conditions are:

(i) Up to 50% of the shares will vest in July 2007, based on the Group's Headline EPS growth and TSR performance compared to the FTSE 250 Index over a three and a half year performance period. The remaining 50% of shares will vest in July 2008, subject to the Group's performance against the same performance criteria over a four year performance period.

(ii) All types of award are 50% based on TSR performance and 50% based on Headline EPS performance. Performance required for awards to vest fully is summarised below:

	TSR	Headline EPS
Basic Awards	Outperform FTSE 250 index by at least 5% over the performance period	25% if 2005 EPS is at least 20% above 2004 and does not fall in 2006 and 2007 25% if 2006 EPS is at least 43% above 2004 and does not fall in 2007 50% if 2007 EPS is at least 73% above 2004 and does not fall in 2008
Stretch Awards	Outperform FTSE 250 index by at least 20% over the performance period	25% if 2005 EPS is at least 29% above 2004 and does not fall in 2006 and 2007 25% if 2006 EPS is at least 53% above 2004 and does not fall in 2007 50% if 2007 EPS is at least 82% above 2004 and does not fall in 2008
Super Stretch Awards	Outperform FTSE 250 index by at least 35% over the performance period	25% if 2005 EPS is at least 38% above 2004 and does not fall in 2006 and 2007 25% if 2006 EPS is at least 62% above 2004 and does not fall in 2007 50% if 2007 EPS is at least 90% above 2004 and does not fall in 2008

In arriving at Headline EPS for the period ended 31 March 2007 start-up losses associated with Free Broadband will be reversed to ensure consistency with original targets.

For awards made in June 2005 the performance conditions are:

As for awards made in July 2004 except in that shares vest in July 2008 only.

For awards made in December 2006 the performance conditions are:

(i) The vesting criteria for 50% of the award is Group TSR performance relative to the constituents of the FTSE 100 index ("relative performance") measured at June 2010.

The vesting criteria for the remaining 50% of the award is Group TSR performance compared to the position at December 2006 ("absolute performance") measured at June 2010 and June 2011.

(ii) Subject to these performance criteria, shares vest in two equal tranches in June 2010 and June 2011.

(iii) Specific targets for the awards are as follows:

	Relative performance	% of potential award vesting	Absolute performance	% of potential award vesting
Basic Awards	Below Median	0%	Less than 10% per annum	0%
	Median or above	100%	10% per annum	100%
Stretch Awards	Between Median and Upper Quartile	0% to 50% (pro rata)	Between 10% and 15% per annum	0% to 50% (pro rata)
	Upper Quartile or above	50%	15% per annum	50%
Super Stretch Awards	Between Upper Quartile and Upper Decile	0% to 50% (pro rata)	Between 15% and 20% per annum	0% to 50% (pro rota)
	Upper Decile or above	50%	20% per annum	50%

Executive Directors' service contracts

All Executive Directors and David Ross have service contracts which are terminable by the Company or the Executive Director with 12 months' notice or less.

The dates of each contract are set out below and none specifically provides for compensation for early termination.

External Appointments

The Board supports Executive Directors holding Non-Executive Directorships of other companies and believes that such appointments are part of the continuing development of the Executive Directors from which the Company will ultimately benefit. The Board has reviewed all such appointments and the following sets out those appointments that the Board believes require disclosure pursuant to the Code. The Board has also agreed that the Directors may retain their fees from such appointments.

Currently, Charles Dunstone is a Non-Executive Director of HBOS PLC, The Daily Mail and General Trust PLC and Independent Media Distribution PLC, for which the annual fees are £77,104, £38,750 and £20,000 respectively. He does not currently intend to take on any additional responsibilities. David Goldie is a Non-Executive Director of the Cheshire Building Society, for which he received £27,000.

Fees for Non-Executive Directors

The fees for each of the Non-Executive Directors are determined by the Board after considering external market research. The Non-Executive Directors do not take part in discussions on their remuneration.

Each of the Non-Executive Directors, except David Ross, has a letter of appointment substantially in the form suggested by the Code and each has a three-month notice period with no compensation for loss of office. The Company has no age limit for Directors.

The dates of each contract are set out below.

Directors' interests in shares and dates of service contracts

	Ordinary shares of 0.1p		
Director	**31 March 2007**	1 April 2006	Date of contract
J H Dale	**168,300**	168,044	30 March 2001
C W Dunstone	**297,577,535**	298,028,535	26 June 2000
S Esom	**3,500**	3,500	29 September 2005
J Gildersleeve	**384,026**	246,000	14 April 2005
D Goldie	**823,495**	1,057,350	1 July 2005
D Grigson	**–**	–	24 April 2007
A Harrison	**401,400**	401,400	3 April 2006
D Mansfield	**500**	500	29 September 2005
A Martin	**12,461**	12,461	26 May 2005
Baroness Morgan	**1,982**	1,982	1 November 2005
Sir B Pitman	**14,687**	14,687	26 May 2005
D P J Ross	**193,840,759**	193,840,759	4 July 2002
R W Taylor	**862,853**	1,458,385	2 March 2000

The following dealings by Directors took place during the period:

On 25 May 2006 J H Dale, D Goldie and R W Taylor received 256, 359 and 462 dividend shares respectively. These were received in respect of the shares granted to them under the Annual Deferred Bonus Plan on 7 June 2005. Following the first year anniversary of the basic share award made under the Annual Deferred Bonus Plan the participants were granted a first matching share award having satisfied the relevant requirements. Accordingly, D Goldie and R W Taylor were granted a further 3,115 and 4,006 shares respectively.

On 9 June 2006 J H Dale exercised and sold 422,222 options. A Harrison and a related party also exercised and sold a total of 864,666 options.

On 27 June 2006 R W Taylor exercised and sold 400,000 options and sold 600,000 shares.

On 28 and 29 June 2006 J Gildersleeve purchased a total of 138,026 shares.

On 12 January 2007 D Goldie exercised 12,671 options under the Company's Save As You Earn scheme and also sold 250,000 shares.

On 23 March 2007 C Dunstone transferred 451,000 shares by way of gift to The Charles Dunstone Charitable Trust.

As potential beneficiaries under the Employee Share Ownership Trust ("ESOT"), the Executive Directors are deemed to be interested in all of the shares held by the ESOT, which at 31 March 2007 amounted to 9,800,418 shares.

Remuneration Report continued

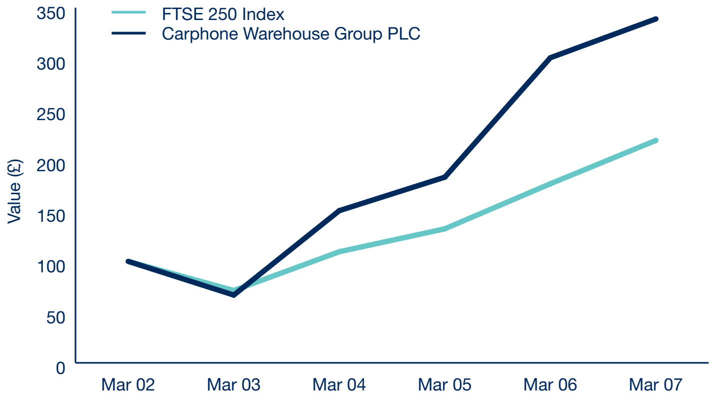
Performance graphs

Graph 1 shows the Group's performance compared to the TSR performance of the FTSE 250 Index over the last five financial years. A three month rolling average has been applied.

The FTSE 250 was selected as it is a broad market index of which the Group is a member. In addition, the Group uses that index as a comparator for determining whether or not Performance Shares vest.

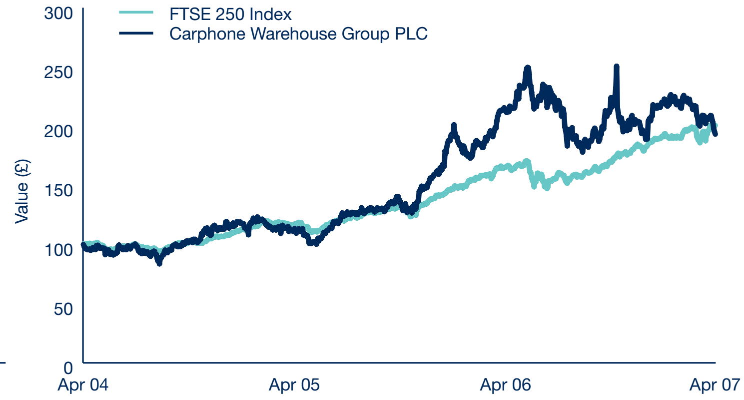
Graph 2 shows similar information to Graph 1 but measured from 1 April 2004, with TSR measured on a daily basis. This graph is relevant as it reflects the TSR performance condition for the 2004 award of Performance Shares.

Graph 1



This graph shows the value, by 31 March 2007, of £100 invested in Carphone Warehouse Group PLC on 30 March 2002 compared with the value of £100 invested in the FTSE 250 Index. Values are calculated on a rolling 3-month average basis. The other points plotted are the values at intervening financial year-ends.

Graph 2 **Source: Datastream**



This graph shows the value, by 1 April 2007, of £100 invested in Carphone Warehouse Group PLC on 1 April 2004 compared with the value of £100 invested in the FTSE 250 Index. The graph shows daily movements in these values over the period.

This report was approved by the Board on 4 June 2007.

Sir Brian Pitman
4 June 2007

Directors' Report

The Directors have pleasure in presenting the Annual Report and financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 31 March 2007.

Principal activities and review of the business

The principal activity of the Group continues to be the provision of mobile communication products and services and fixed line communication services. For the purposes of segmental reporting, operations are classified into three divisions, being Distribution, Telecoms Services and Dealer. The subsidiary undertakings principally affecting the results or net assets of the Group in the period are listed in note 14 to the financial statements.

A detailed review of the business is contained in the Business Review on pages 10 to 16 in accordance with section 234ZZB of the Companies Act 1985. Our responsibilities under s234ZA of the Companies Act have been included in the Statement of Directors' Responsibilities set out on page 32.

Results

The profit before taxation for the financial period decreased from £81.0m in the prior period to £68.4m. An interim dividend of 1.0p per share (2006 – 0.75p) was paid in the period. The Directors recommend the payment of a final dividend of 2.25p per share (2006 – 1.75p). Subject to shareholders' approval at the Annual General Meeting, the intended payment date of the final dividend will be on 3 August 2007 to shareholders on the register at the close of business on 6 July 2007. Details of significant events since the balance sheet date are provided in note 31 to the financial statements.

Directors

The names and brief biographical details of the Directors are shown on page 21. Particulars of Directors' remuneration, interests in the shares of the Company and its subsidiaries, and interests in share options are given in the Remuneration Report on pages 25 to 30.

Employment of disabled people

It is the Group's policy to encourage application for employment from disabled people and to assist with their training and career development, having regard to particular aptitudes and abilities. Every endeavour is made to find suitable alternative employment and to re-train any employee who becomes disabled while serving the Group.

Employee involvement

The Group places significant emphasis on its employees' involvement in the business at all levels. Managers are remunerated according to results wherever possible and all employees are kept informed of issues affecting the Group through formal and informal meetings and through the Group's internal publications. Members of the management team regularly visit all Group locations and discuss matters of current interest and concern with employees.

Supplier payment policy

The Group's policy is to agree terms of transactions, including payment terms, with suppliers and, provided that suppliers perform in accordance with the agreed terms, it is the Group's normal practice that payment is made accordingly. Details of the average credit period taken on trade payables are provided in note 19 to the financial statements.

Donations

The Group made charitable donations of £117,000 during the period (2006 – £107,000). No political donations were made during either period.

Contracts with controlling shareholders

There are no material contracts with controlling shareholders, except as disclosed in the Remuneration Report on pages 25 to 30.

Share capital

Details of the movements in authorised and issued share capital during the period are provided in notes 23 and 24 to the financial statements.

Property, plant and equipment

Movements in property, plant and equipment are set out in note 13 to the financial statements. In the opinion of the Directors the current open market value of the Group's interests in freehold land and buildings exceeds the book value by £31.4m at 31 March 2007. It is expected that any capital gains would either be covered by capital losses or carried forward for relief against capital expenditure.

Significant shareholdings

No interests appeared on the Register of Members nor had any been notified to the Company in accordance with sections 198 to 208 of the Companies Act 1985 on 4 June 2007.

The total interests of the Directors are detailed in the Remuneration Report on pages 25 to 30.

Going concern

On the basis of current financial projections and facilities available, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and consequently the financial statements continue to be prepared on the going concern basis.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

The Carphone Warehouse Group PLC
1 Portal Way
London W3 6RS

T S Morris
Company Secretary

4 June 2007

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the consolidated financial statements of The Carphone Warehouse Group PLC ("the Company") and its subsidiaries (together, "the Group").

The Directors are required by law to prepare the Group's financial statements in accordance with the Companies Act 1985, International Financial Reporting Standards ("IFRS") and Article 4 of the IAS Regulation.

The Directors are required to ensure that the Group's financial statements present fairly for each financial period the Group's financial position, financial performance and cash flows which requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements.

In preparing the Group's financial statements, the Directors are required to select and apply accounting policies, present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position, financial performance or cash flows.

The Directors are responsible for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the Group's financial statements comply with applicable law.

The Directors are responsible for safeguarding the assets of the Group and hence for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

The Directors are responsible for including in the Annual Report a report on Directors' remuneration which complies with the requirements of the Companies Act 1985.

Each of the persons who is a Director at the date of approval of the Group's financial statements confirms that:

- so far as the Director is aware, there is no relevant audit information of which the auditors are unaware; and
- the Director has taken reasonable steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234Z of the Companies Act 1985.

The Directors are also responsible for the maintenance and integrity of the financial information contained on the corporate website, www.cpwplc.com. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group's financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

Independent Auditors' Report

Independent Auditors' Report to the members of The Carphone Warehouse Group PLC

We have audited the Group financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the individual Company financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 31 March 2007.

This Report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Operational and Financial Performance Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's Remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the unaudited part of the Remuneration Report, the Business Review, the Corporate Responsibility Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the 52 week period then ended; and
- the Group financial statements and the part of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

4 June 2007

Consolidated Income Statement

For the 52 weeks ended 31 March 2007

	Notes	Before amortisation of acquisition intangibles and goodwill expense 52 weeks ended 31 March 2007 £'000	Amortisation of acquisition intangibles and goodwill expense (see note 10) 52 weeks ended 31 March 2007 £'000	After amortisation of acquisition intangibles and goodwill expense 52 weeks ended 31 March 2007 £'000	Before amortisation of acquisition intangibles, goodwill expense and reorganisation costs 52 weeks ended 1 April 2006 £'000	Amortisation of acquisition intangibles, goodwill expense and reorganisation costs (see note 10) 52 weeks ended 1 April 2006 £'000	After amortisation of acquisition intangibles, goodwill expense and reorganisation costs 52 weeks ended 1 April 2006 £'000
Revenue							
Existing operations		3,862,259		3,862,259	3,046,403		3,046,403
Acquisitions	2	129,219		129,219	–		–
	2	3,991,478		3,991,478	3,046,403		3,046,403
Cost of sales	2	(2,731,262)		(2,731,262)	(2,063,021)		(2,063,021)
Gross profit	2	1,260,216		1,260,216	983,382		983,382
Operating expenses excluding amortisation and depreciation	2,3,4	(966,244)		(966,244)	(740,892)	(22,288)	(763,180)
EBITDA		293,972		293,972	242,490	(22,288)	220,202
Depreciation	2,3	(65,908)		(65,908)	(49,585)		(49,585)
Amortisation	2,3,4	(68,736)	(54,225)	(122,961)	(51,127)	(30,955)	(82,082)
Goodwill expense	2,3	–	(529)	(529)	–	(1,825)	(1,825)
Share of results of joint ventures	15	(9,854)		(9,854)	–		–
Operating profit		149,474	(54,754)	94,720	141,778	(55,068)	86,710
Existing operations	2	136,077	(38,694)	97,383	141,778	(55,068)	86,710
Acquisitions	2	13,397	(16,060)	(2,663)	–	–	–
Profit before interest and taxation	2,3	149,474	(54,754)	94,720	141,778	(55,068)	86,710
Interest payable	7	(32,413)		(32,413)	(13,799)		(13,799)
Interest receivable	7	6,054		6,054	8,090		8,090
Profit before taxation		123,115	(54,754)	68,361	136,069	(55,068)	81,001
Taxation	8	(17,665)	16,267	(1,398)	(26,670)	16,210	(10,460)
Net profit for the financial period		105,450	(38,487)	66,963	109,399	(38,858)	70,541
Earnings per share							
Basic	11	11.82p		7.51p	12.38p		7.99p
Diluted	11	11.20p		7.11p	11.65p		7.51p

The accompanying notes are an integral part of this consolidated income statement. All amounts relate to continuing operations.

Consolidated Statement of Changes in Equity

For the 52 weeks ended 31 March 2007

	Notes	52 weeks ended 31 March 2007 £'000	52 weeks ended 1 April 2006 £'000
At the beginning of the period		619,003	540,218
Net profit for the financial period		66,963	70,541
Currency translation	24	(170)	(3,644)
Tax on items recognised directly in reserves	8,24	3,205	19,597
Net change in available-for-sale investments	24	3,668	4,236
Issue of share capital	24	8,454	10,684
Net sale (purchase) of own shares	24	599	(15,851)
Unrealised gain on disposal of subsidiary	24	1,676	–
Net cost of share-based payments	6,24	10,410	10,665
Equity dividends	9,24	(24,185)	(17,443)
At the end of the period		689,623	619,003

The accompanying notes are an integral part of this consolidated statement of changes in equity.

Consolidated Balance Sheet

As at 31 March 2007

	Notes	31 March 2007 £'000	1 April 2006 £'000
Non-current assets			
Goodwill	12	**638,952**	568,630
Other intangible assets	12	**513,592**	159,274
Property, plant and equipment	13	**337,404**	241,744
Non-current asset investments	14	**14,498**	10,264
Interests in joint ventures	15	**1,436**	–
Deferred tax assets	8	**51,657**	34,938
		1,557,539	1,014,850
Current assets			
Stock	16	**161,532**	138,047
Trade and other receivables	17	**743,850**	554,472
Current asset investments	18	**2,314**	5,233
Cash and cash equivalents	20	**111,060**	98,093
		1,018,756	795,845
Total assets		**2,576,295**	1,810,695
Current liabilities			
Trade and other payables	19	**(922,189)**	(642,009)
Corporation tax liabilities		**(52,707)**	(42,669)
Loans and other borrowings	20	**(22,653)**	(56,733)
Provisions	22	**(109,936)**	(123,538)
		(1,107,485)	(864,949)
Non-current liabilities			
Trade and other payables	19	**(71,550)**	(6,689)
Loans and other borrowings	20	**(707,637)**	(320,054)
		(779,187)	(326,743)
Total liabilities		**(1,886,672)**	(1,191,692)
Total assets and liabilities		**689,623**	619,003
Equity			
Share capital	23,24	**896**	888
Share premium reserve	24	**426,805**	418,359
Capital redemption reserve	24	**30**	30
Translation reserve	24	**1,904**	2,074
Accumulated profits	24	**259,988**	197,652
Funds attributable to equity shareholders		**689,623**	619,003

The accompanying notes are an integral part of this consolidated balance sheet.

The financial statements on pages 34 to 64 were approved by the Board on 4 June 2007 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Consolidated Cash Flow Statement

For the 52 weeks ended 31 March 2007

	Notes	52 weeks ended 31 March 2007 £'000	52 weeks ended 1 April 2006 £'000
Operating activities			
Operating profit		**94,720**	86,710
Adjustments for non-cash items:			
Share-based payments		**10,410**	10,665
Non-cash movements on joint ventures		**8,034**	–
Depreciation		**65,908**	49,585
Amortisation (before reorganisation costs)		**122,961**	69,125
Goodwill expense		**529**	1,825
Reorganisation costs		**–**	35,245
Operating cash flows before movements in working capital		**302,562**	253,155
Profit on disposal of property, plant and equipment and intangible assets		**(3,717)**	(1,013)
Increase in trade and other receivables		**(175,439)**	(138,086)
Increase in stock		**(26,437)**	(41,359)
Increase in trade and other payables		**180,395**	95,440
(Decrease) increase in provisions		**(21,097)**	28,228
Cash generated from operations		**256,267**	196,365
Taxation paid		**(6,481)**	(13,739)
Net cash generated from operating activities		**249,786**	182,626
Investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		**13,557**	2,540
Acquisition of subsidiaries, net of cash acquired	14	**(258,269)**	(157,835)
Interest received		**6,054**	8,090
Acquisition of intangible assets		**(148,060)**	(104,710)
Acquisition of property, plant and equipment		**(161,417)**	(89,425)
Acquisition of non-current asset investments		**–**	(1,659)
Investment in joint ventures		**(8,344)**	–
Cash flows from investing activities		**(556,479)**	(342,999)
Financing activities			
Proceeds from the issue of share capital		**8,454**	10,684
Net sale (purchase) of own shares		**599**	(15,851)
Increase in borrowings		**374,134**	197,625
Interest paid		**(32,413)**	(13,799)
Receipts from current asset investments		**2,353**	56,619
Dividends paid		**(24,185)**	(17,443)
Cash flows from financing activities		**328,942**	217,835
Net increase in cash and cash equivalents		**22,249**	57,462
Cash and cash equivalents at the start of the period		**76,957**	19,352
Effect of exchange rate fluctuations		**(316)**	143
Cash and cash equivalents at the end of the period	25	**98,890**	76,957
Cash and cash equivalents for the purposes of this statement comprise:			
Cash and cash equivalents	20	**111,060**	98,093
Bank overdrafts	20	**(12,170)**	(21,136)
		98,890	76,957

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Carphone Warehouse Group PLC ("the Company") is incorporated in the United Kingdom.

The consolidated financial statements of the Company and all of its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 1985. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation. The Company continues to apply United Kingdom GAAP in the preparation of its individual financial statements, which are contained on pages 67 to 71.

The details of the elections made on conversion to IFRS were set out in the 1 April 2006 Annual Report.

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS7 'Financial Instruments: Disclosures', and the related amendment to IAS1 'Presentation of Financial Statements' on capital disclosures. The Group will adopt these pronouncements for the period ending 29 March 2008.
- IFRS8 'Operating Segments', which, subject to its endorsement by the European Union, the Group will adopt for the period ending 28 March 2009.
- IFRIC8 'Scope of IFRS2', which the Group will adopt for the period ending 29 March 2008.
- IFRIC9 'Reassessment of Embedded Derivatives', which the Group will adopt for the period ending 29 March 2008.
- IFRIC10 'Interim Financial Reporting and Impairment', which, subject to its endorsement by the European Union, the Group will adopt for the period ending 29 March 2008.
- IFRIC12 'Service Concession Arrangements', which, subject to its endorsement by the European Union, the Group will adopt for the period ending 28 March 2009.

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group's results or financial position, but IFRS8 may affect the disclosure of information in the Group's financial statements.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The Group's principal accounting policies are set out below.

b) Basis of consolidation

The consolidated financial statements incorporate the results of the Group to 31 March 2007. The results of subsidiaries acquired or sold during the period are included from or to the date on which control passed. Intercompany transactions and balances are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

c) Foreign currency translation

Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates thus obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Material monetary assets and liabilities denominated in foreign currencies are hedged, mainly using forward foreign exchange contracts to create matching liabilities and assets, and are retranslated at each balance sheet date. Hedge accounting as defined by IAS39 'Financial Instruments: Recognition and Measurement' has been applied in the current period by marking to market the relevant financial instruments at the balance sheet date and recognising the gain or loss in reserves in respect of cash flow hedges, and through the income statement in respect of fair value hedges.

The results of overseas operations are translated at the average foreign exchange rates for the period, and their balance sheets are translated at the rates prevailing at the balance sheet date. Goodwill is held in the currency of the operations to which it relates. Exchange differences arising on the translation of opening net assets, goodwill and results of overseas operations are dealt with through the translation reserve. All other exchange differences are included in the income statement.

The principal exchange rates against Sterling used in these financial statements are as follows:

	Average 52 weeks ended 31 March 2007	Average 52 weeks ended 1 April 2006	**Closing 31 March 2007**	Closing 1 April 2006
Euro	**1.4748**	1.4644	**1.4735**	1.4333
South African Rand	**13.3742**	n/a	**14.2247**	n/a
Swedish Krona	**13.6029**	13.6833	**13.7611**	13.5185
Swiss Franc	**2.3434**	2.2737	**2.3945**	2.2668
United States Dollar	**1.9018**	n/a	**1.9614**	n/a

In the event that a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation.

d) Revenue

Revenue is stated net of VAT and other sales related taxes. The following accounting policies are applied to each business segment:

Distribution:

Distribution revenue comprises revenue generated from the sale of mobile communication products and services, commission receivable on sales less provision for promotional offers and network operator performance penalties, ongoing revenue (share of customer airtime spend, and customer revenue and retention bonuses) and insurance premiums.

- Commission receivable on sales, being commission which is contractually committed, and for which there are no ongoing performance criteria, is recognised when the sales to which the commission relates are made.
- Volume bonuses are recognised when the conditions on which they are earned have been met.
- Ongoing revenue is recognised as it is earned over the lives of the relevant customers.
- Insurance premiums are typically paid quarterly in advance. Initial administration fees, which are specified in the contract, are recognised at the point of sale. Insurance premium income is recognised over the lives of the relevant policies.
- All other revenue is recognised when the relevant goods or services are provided.

Telecoms Services:

Telecoms Services revenue comprises revenue generated from facilities management, revenue from mobile and fixed network services and ongoing revenue. All such revenue is recognised as it is earned over the lives of the relevant customers. Revenue from other products and services associated with Telecoms Services is recognised when such products and services are provided.

Dealer:

Dealer revenue comprises revenue generated from the sale of mobile hardware and is recognised when sales are made.

Notes to the Financial Statements continued

e) Share-based payments
The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (such as Earnings Per Share targets) and a Monte Carlo model for those with external performance criteria (such as Total Shareholder Return targets).

For schemes with internal performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the income statement, with a corresponding entry in reserves.

For schemes with external performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the income statement, with a corresponding entry in reserves.

f) Pensions
Contributions to defined contribution schemes are charged to the income statement as they become payable in accordance with the rules of the schemes.

g) Dividends
Dividend income is recognised when payment has been received. Final dividend distributions are recognised as a liability in the financial statements in the period in which they are approved by the Group's shareholders. Interim dividends are recognised in the period in which they are paid.

h) Leases
Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives and rent-free periods are amortised through the income statement over the period of the lease.

Gains or losses from sale and leaseback transactions are deferred over the life of the new lease to the extent that the rentals are considered to be above or below market rentals. The remaining gain or loss is recognised within operating expenses in the period in which the sale is completed.

i) Taxation
Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, the carry-forward of unused tax losses and credits. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is provided on the unremitted earnings of overseas subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Current and deferred tax is recognised in the income statement except where it relates to an item recognised directly in reserves, in which case it is recognised directly in reserves.

Deferred tax assets and liabilities are offset where there is a legal right to do so in the relevant jurisdictions.

j) Intangible assets
Goodwill:
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. At the acquisition date, goodwill is allocated to each of the cash-generating units ("CGUs") expected to benefit from the combination and held in the currency of the operations to which the goodwill relates. Goodwill is reviewed at least annually for impairment, or more frequently where there is an indication that goodwill may be impaired. Impairment is determined by assessing the future cash flows of the CGUs to which the goodwill relates. Where the future cash flows are less than the carrying value of goodwill, an impairment charge is recognised in the income statement.

On disposal of a subsidiary undertaking, the relevant goodwill is included in the calculation of the profit or loss on disposal.

Subscriber acquisition costs:
Subscriber acquisition costs comprise the direct third-party costs of recruiting and retaining new customers, net of incentives from network operators and provision for in-contract churn. They are capitalised as an intangible asset, to the extent that they are supported by expected future cash inflows, and amortised on a straight-line basis through operating expenses in the income statement over the minimum subscription period. Subscriber acquisition costs for customers with no minimum subscription commitment are reflected in operating expenses as incurred.

Software and licenses:
Software and licenses includes internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred. Software and licenses are amortised on a straight-line basis over their estimated useful economic lives of up to 8 years.

Key money:
Key money paid to enter a property is stated at cost, net of amortisation and any provision for impairment. Amortisation is provided on key money at rates calculated to write off the cost, less estimated residual value, on a straight-line basis over 10 years or the lease term if less.

Acquisition intangibles:
Acquired intangible assets ("acquisition intangibles") such as customer bases, brands and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to 6 years on a straight-line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows after a deduction for contributory assets.

k) Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life from the date it is brought into use, as follows:

Freehold buildings	2-4% per annum
Short leasehold costs	10 years or the lease term if less
Computer hardware, network and office equipment	12.5-50% per annum
Fixtures and fittings	20-25% per annum
Motor vehicles	25% per annum

l) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down through an accelerated amortisation charge to its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets.

m) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition costs associated with the investment.

The Group's investments are categorised as available-for-sale and recorded at fair value from this date.

Changes in fair value, together with any related taxation, are taken directly to reserves, and recycled to the income statement when the investment is sold or is determined to be impaired.

n) Interests in joint ventures

Interests in joint ventures are accounted for using the equity method. The consolidated income statement includes the Group's share of the pre-tax profits and attributable taxation of the joint ventures based on their financial statements for the financial period. In the consolidated balance sheet, the Group's interests in the joint ventures are shown as a non-current asset in the balance sheet, representing the Group's gross cash investment in the share capital of the joint ventures, as well as any loans advanced, plus or minus the Group's share of profits or losses arising in the joint ventures.

o) Stock

Stock is stated at the lower of cost and net realisable value. Cost, net of discounts, includes all direct costs incurred in bringing stock to its present location and condition and represents finished goods and goods for resale. Net realisable value is based on estimated selling price, less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

p) Cash and cash equivalents

Cash and cash equivalents represent cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash.

q) Loans and other borrowings

Loans and other borrowings represent bank overdrafts, uncommitted bank loans, committed bank loans and loan notes issued by the Group.

Bank fees and legal costs associated with the securing of external financing are capitalised and amortised over the term of the relevant facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

r) Financial instruments

The Group uses forward currency contracts to reduce its exposure to exchange rate fluctuations. Such contracts are measured at their fair value based on contracted exchange rates. Hedge accounting as defined by IAS39 has been applied to the financial statements in the current period.

s) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted where the time value of money is considered to be material.

Provisions are categorised as follows:

Insurance:

Full provision is made for the estimated cost of all claims notified but not settled at the balance sheet date. Provision is also made for the estimated cost of claims incurred but not reported at the balance sheet date, based on historic experience of the value of such claims. Any differences between original claims provisions and subsequent settlements are reflected in the income statement in the relevant period.

Reorganisation:

Reorganisation provisions are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. Provisions are not recognised in respect of future operating losses.

Sales:

Sales provisions relate to "cash-back" and similar promotions, product warranties, product returns, and network operator performance penalties. The anticipated costs of these items are assessed by reference to historic trends and any other information that is considered to be relevant.

Other:

Other provisions relate to dilapidations and similar property costs, and all other provisions, principally being the anticipated costs of unresolved tax issues and legal disputes, and costs associated with onerous contracts. All such provisions are assessed by reference to the best available information at the balance sheet date.

t) Use of critical accounting estimates and assumptions

Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact in the financial statements.

The principal balances in the financial statements where changes in estimates and assumptions may have a material impact are as follows:

Subscriber acquisition costs:

Estimates made in relation to future cash inflows, related cash outflows and rates of in-contract churn are based on the best information available at the balance sheet date, but such estimates may differ from actual results.

Recoverable amount of non-current assets:

All non-current assets, including goodwill and other intangible assets, are reviewed for potential impairment using estimates of the future economic benefits attributable to them. In the case of customer bases, such estimates involve assumptions in relation to future customer margins and average customer lives. Any estimates of future economic benefits made in relation to non-current assets may differ from the benefits that ultimately arise, and materially affect the recoverable value of the asset.

Trade and other receivables:

Provisions for irrecoverable receivables are based on extensive historic evidence, and the best available information in relation to specific issues, but are nevertheless inherently uncertain.

Notes to the Financial Statements continued

Current taxation:
The complex nature of tax legislation across the tax jurisdictions in which the Group operates necessitates the use of many estimates and assumptions, where the outcome may differ from that assumed.

Deferred taxation:
The extent to which tax losses can be utilised depends on the extent to which taxable profits are generated in the relevant jurisdictions in the foreseeable future, and on the tax legislation then in force, and as such the value of associated deferred tax assets is uncertain.

Provisions:
The Group's reorganisation provisions are based on the best information available to management at the balance sheet date. However, the future costs assumed are inevitably only estimates, which may differ from those ultimately incurred.

Sales provisions are based on historic patterns: of redemption for promotions, product return rates for returns and warranties, and penalty rates from network operators. The Group has extensive data in all areas; however, if the historic patterns on which the provisions are based change significantly in the future, the financial statements may be materially impacted.

Provisions relating to the disposal of excess property necessitate assumptions in respect of period to disposal and exit costs, which may differ from the ultimate cost of disposal.

2 Segmental reporting

Divisional results are analysed as follows:

	Revenue 2007 £'000	Revenue 2006 £'000	Profit before interest and taxation 2007 £'000	Profit before interest and taxation 2006 £'000
Headline (see note 10)				
Retail (including Online)	**1,908,819**	1,578,982	**166,645**	142,214
Insurance	**137,009**	116,054	**54,453**	45,536
Ongoing	**71,689**	58,447	**71,689**	58,447
Contribution			**292,787**	246,197
Support costs			**(96,629)**	(84,153)
Depreciation			**(41,864)**	(35,700)
Amortisation			**(12,904)**	(10,860)
Distribution	**2,117,517**	1,753,483	**141,390**	115,484
Fixed	**1,195,848**	666,687	**88,981**	61,055
Mobile	**504,768**	459,773	**60,020**	48,414
Contribution			**149,001**	109,469
Support costs			**(50,543)**	(29,703)
Depreciation			**(23,357)**	(13,231)
Amortisation			**(55,677)**	(40,143)
Telecoms Services	**1,700,616**	1,126,460	**19,424**	26,392
Dealer	**209,719**	188,376	**843**	2,102
Contribution			**843**	2,102
Support costs			**(1,487)**	(1,422)
Depreciation			**(687)**	(654)
Amortisation			**(155)**	(124)
Dealer	**209,719**	188,376	**(1,486)**	(98)
Statutory				
Headline Distribution	**2,117,517**	1,753,483	**141,390**	115,484
Goodwill expense			**(529)**	(1,825)
Reorganisation costs (see note 4)			**–**	(4,445)
Distribution	**2,117,517**	1,753,483	**140,861**	109,214
Headline Telecoms Services	**1,700,616**	1,126,460	**19,424**	26,392
Amortisation of acquisition intangibles			**(54,225)**	(17,998)
Reorganisation costs (see note 4)			**–**	(30,800)
Telecoms Services	**1,700,616**	1,126,460	**(34,801)**	(22,406)
Dealer	**209,719**	188,376	**(1,486)**	(98)
Share of results of joint ventures (see note 15)			**(9,854)**	–
Elimination of intra-group transactions	**(36,374)**	(21,916)	**–**	–
Total Group	**3,991,478**	3,046,403	**94,720**	86,710

The segmental reporting divisions presented above are based on the Group's internal management and reporting structure in place during the period. Transactions between segments are on an arm's length basis and support costs are allocated to segments based on the extent to which they relate to the relevant business streams.

Financial Statements

Notes to the Financial Statements continued

2 Segmental reporting continued

Divisional capital expenditure, assets and liabilities are analysed as follows:

	2007				2006			
	Capital expenditure* £'000	Assets £'000	Liabilities £'000	Net assets £'000	Capital expenditure* £'000	Assets £'000	Liabilities £'000	Net assets £'000
Distribution	122,041	1,230,526	(1,037,762)	192,764	94,442	1,068,253	(767,693)	300,560
Telecoms Services	194,940	1,344,333	(848,910)	495,423	99,693	742,442	(423,999)	318,443
Joint ventures	–	1,436	–	1,436	–	–	–	–
Total Group	316,981	2,576,295	(1,886,672)	689,623	194,135	1,810,695	(1,191,692)	619,003

*Includes expenditure on property, plant and equipment and intangible assets, excluding goodwill and acquisition intangibles.

Capital expenditure, assets and liabilities associated with the Dealer division are not separable from those of Distribution, and are therefore reported within that division.

Assets and liabilities that are not directly attributable to either Distribution or Telecoms Services are allocated to these divisions in proportion to revenue.

Details of the locations of the Group's operations are provided in the Group Overview at the front of the Annual Report.

Results by geographical location are analysed by origin as follows:

	Revenue		Capital expenditure*		Total assets	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
United Kingdom	2,582,576	1,820,057	219,006	99,010	1,816,057	1,098,764
France	238,778	205,792	14,959	11,347	206,218	200,931
Germany	459,211	396,842	48,229	54,792	187,971	167,073
Spain	310,747	254,364	15,459	11,632	146,486	143,496
Other	400,166	369,348	19,328	17,354	219,563	200,431
Total Group	3,991,478	3,046,403	316,981	194,135	2,576,295	1,810,695

*Includes expenditure on property, plant and equipment and intangible assets, excluding goodwill and acquisition intangibles.

The difference between revenue by destination and revenue by origin is not material.

Material acquisitions were all in the United Kingdom in the Telecoms Services division; these acquisitions recorded revenue of £129.2m and a loss before taxation of £6.6m in the period, and represented total assets of £448.7m at 31 March 2007. The loss before taxation reflects an operating loss of £2.7m and an interest charge of £3.9m.

Details of acquisitions are given in note 14.

The results of material acquisitions are analysed as follows:

	2007			2006
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Revenue	3,862,259	129,219	3,991,478	3,046,403
Cost of sales	(2,656,462)	(74,800)	(2,731,262)	(2,063,021)
Gross profit	1,205,797	54,419	1,260,216	983,382
Depreciation	(63,883)	(2,025)	(65,908)	(49,585)
Amortisation of acquisition intangibles	(38,165)	(16,060)	(54,225)	(17,998)
Amortisation of other intangible assets	(65,145)	(3,591)	(68,736)	(51,127)
Goodwill expense	(529)	–	(529)	(1,825)
Reorganisation costs (see note 4)	–	–	–	(35,245)
Other operating expenses	(930,838)	(35,406)	(966,244)	(740,892)
Share of results of joint ventures	(9,854)	–	(9,854)	–
Operating profit (loss)	97,383	(2,663)	94,720	86,710

3 Profit before interest and taxation

a) Profit before interest and taxation is stated after charging:

	2007 £'000	2006 £'000
Depreciation of property, plant and equipment (see note 13)	**65,908**	49,585
Amortisation of acquisition intangibles (see note 12)	**54,225**	17,998
Amortisation of other intangible fixed assets (before reorganisation costs) (see notes 4 and 12)	**68,736**	51,127
Goodwill expense (see note 12)	**529**	1,825
Amounts written off stock	**15,928**	12,324
Other stock cost of sales	**1,522,679**	1,301,271
Share-based payments (see note 6)	**10,410**	10,665
Other employee costs (see note 5)	**504,540**	393,023
Rentals under operating leases – property	**83,572**	71,885
Auditors' remuneration (see below)	**1,545**	1,273

b) Analysis of operating expenses:

	2007 £'000	2006 £'000
Operating expenses excluding amortisation, depreciation and goodwill expense	**966,244**	763,180
Depreciation	**65,908**	49,585
Amortisation	**122,961**	82,082
Goodwill expense	**529**	1,825
Total operating expenses	**1,155,642**	896,672

c) Auditors' remuneration:

	2007 £'000	2006 £'000
Statutory services:		
– Audit of Company's accounts	**268**	225
– Audit of the accounts of the Company's subsidiaries	**1,107**	890
	1,375	1,115
Tax services:		
– Compliance services	**–**	7
– Advisory services	**117**	115
	117	122
Other services:		
– Other services pursuant to legislation	**–**	14
– Other services	**53**	22
Total fees	**1,545**	1,273

Fees for the audit of the Company's accounts represents the fees payable to Deloitte & Touche LLP in respect of the audit of the Company's individual financial statements prepared in accordance with UK GAAP and the Group's consolidated financial statements prepared in accordance with IFRS.

Tax advisory services relate mainly to assessing the tax implications of significant corporate transactions. Other services relate primarily to providing advice on accounting matters.

Notes to the Financial Statements continued

4 Reorganisation costs

The following items were shown separately in the period ended 1 April 2006 given their size or one-off nature:

	Notes	2007 £'000	2006 £'000
Reorganisation costs	a	–	22,288
Accelerated amortisation	b	–	12,957
		–	35,245

a) The Group acquired Onetel in December 2005. Since then, the Group has commenced a reorganisation programme to integrate Onetel with the rest of the Group. The costs of this integration were estimated at £22.3m, comprising the following:

	£'000
Redundancy and other employee costs	11,934
Contract termination costs	4,977
Network and customer migration costs	4,919
Other	458
	22,288

b) The substantial customer growth achieved through the acquisition of Onetel and Tele2 UK, together with the Group's major investment plans in respect of local loop unbundling and billing platforms, prompted a review during the prior period of the Group's systems and network infrastructure.

This review represented a consideration of the extent to which the carrying value of the Group's assets should be reduced either because they had no further use or because their useful economic lives had reduced significantly. The result of this review was an accelerated or one-off amortisation charge in respect of the following assets:

	£'000
Billing infrastructure and customer management systems	8,908
Other	4,049
	12,957

Both these items are expected to attract tax relief at 30% and accordingly a deferred tax asset of £10.6m was recognised at 1 April 2006.

5 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2007 Number	2006 Number
Administration	**3,839**	2,501
Sales and customer management	**15,971**	12,762
	19,810	15,263

Their aggregate remuneration (including Executive Directors) recognised in the income statement comprised:

	2007 £'000	2006 £'000
Wages and salaries	**439,182**	338,833
Social security costs	**61,985**	51,343
Other pension costs	**3,373**	2,847
	504,540	393,023
Share-based payments (see note 6)	**10,410**	10,665
	514,950	403,688

In addition to the costs recognised in the income statement, employee costs of £32.0m (2006 – £22.2m) were capitalised in the period in relation to internally generated intangible assets and network equipment.

A further £8.8m (2006 – £1.5m) of redundancy and other employee costs were incurred in the period and offset against the reorganisation provision arising from the Onetel acquisition (see note 4).

Compensation earned by key management, comprising the Executive Directors and other employees who serve on the Executive Committee, was as follows:

	2007 £'000	2006 £'000
Salaries and fees	**3,547**	3,219
Performance bonuses	**3,374**	3,632
Benefits	**171**	182
Pension costs	**211**	181
Share-based payments	**2,468**	2,313
	9,771	9,527

Details of Directors' remuneration are provided in the Remuneration Report on pages 25 to 30.

At 31 March 2007 there were no loans (2006 – £1.1m) outstanding from Group executives. None of the loans outstanding at 1 April 2006 was due from a Director of the Company.

6 Share-based payments

The Group issues equity settled share-based payments to certain employees, through the following schemes:

a) Performance Share Plan:

During the period the Group made awards of nil cost options under a Performance Share Plan. These awards are subject to Total Shareholder Return ("TSR") performance targets measured over an initial performance period to 4 June 2010 and a subsequent performance period to 4 June 2011. The awards made under this plan in previous periods are subject to a mixture of Headline earnings per share (see note 11) and TSR performance targets measured over a three or four year performance period. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest. Details of the performance targets are provided in the Remuneration Report on pages 25 to 30.

The following table summarises the number and weighted average exercise prices ("WAEP") of share options for the scheme:

	2007		2006	
	Number 000's	WAEP £	Number 000's	WAEP £
Outstanding at the beginning of the period	**29,433**	**–**	27,870	–
Granted during the period	**24,476**	**–**	2,955	–
Forfeited during the period	**(1,804)**	**–**	(1,392)	–
Outstanding at the end of the period	**52,105**	**–**	29,433	–
Exercisable at the end of the period	**–**	**–**	–	–

The options outstanding at 31 March 2007 had a weighted average remaining contractual life of 9.0 years (2006 – 8.9 years).

Financial Statements

Notes to the Financial Statements continued

6 Share-based payments continued

b) Executive Share Option Scheme:

The Group has an Executive Share Option Scheme which provides for a grant price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is generally three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The following table summarises the number and WAEP of share options for the scheme:

		2007		2006
	Number 000's	WAEP £	Number 000's	WAEP £
Outstanding at the beginning of the period	32,559	1.05	47,826	1.04
Granted during the period	–	–	100	1.35
Forfeited during the period	(227)	0.94	(826)	0.90
Exercised during the period	(10,907)	0.93	(14,541)	1.05
Outstanding at the end of the period	21,425	1.11	32,559	1.05
Exercisable at the end of the period	21,425	1.11	20,276	1.13

The options outstanding at 31 March 2007 had a weighted average remaining contractual life of 4.5 years (2006 – 5.8 years). The options exercised during the period were exercised at a weighted average market price of £3.09 (2006 – £1.95).

The summary above includes 14.4m (2006 – 20.2m) options that were granted before 7 November 2002. In accordance with IFRS2 'Share-based Payment', no cost has been recognised in respect of these options.

c) Retail Share Option Scheme:

The Group has a Retail Share Option Scheme, which is open to senior employees in the UK Retail business. The scheme provides for a grant price equal to the average quoted market price of the Company's shares on the date of grant. Options granted are subject to performance criteria. The vesting period is generally three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The following table summarises the number and WAEP of share options for the scheme:

		2007		2006
	Number 000's	WAEP £	Number 000's	WAEP £
Outstanding at the beginning of the period	6,864	1.67	7,325	1.54
Granted during the period	150	3.10	906	2.51
Forfeited during the period	(1,231)	1.66	(1,367)	1.56
Exercised during the period	(1,720)	1.45	–	–
Outstanding at the end of the period	4,063	1.82	6,864	1.67
Exercisable at the end of the period	1,575	1.44	–	–

The options outstanding at 31 March 2007 had a weighted average remaining contractual life of 7.7 years (2006 – 8.4 years).

d) Other employee share option schemes:

The savings-related share option scheme permits the grant to employees of options linked to a bank save-as-you-earn contract for a term of three or five years with contributions from employees of between £5 and £250 per month. Options may be exercised at the end of the three or five year period at a subscription price not less than 80% of the middle market quotation on the date of grant.

In addition, options were granted to UK employees at the time of the Group's admission to the London Stock Exchange.

The following table summarises the number and WAEP of share options for the scheme:

		2007		2006
	Number 000's	WAEP £	Number 000's	WAEP £
Outstanding at the beginning of the period	8,944	1.09	7,795	0.91
Granted during the period	3,140	2.66	3,660	1.38
Forfeited during the period	(1,435)	1.76	(1,534)	1.12
Exercised during the period	(1,790)	0.78	(977)	0.67
Outstanding at the end of the period	8,859	1.60	8,944	1.09
Exercisable at the end of the period	712	0.87	710	0.87

The options outstanding at 31 March 2007 had a weighted average remaining contractual life of 2.2 years (2006 – 2.3 years).

The summary above includes 1.1m (2006 – 1.5m) options that were granted before 7 November 2002. In accordance with IFRS2, no cost has been recognised in respect of these options.

The options exercised during the period were exercised at a weighted average market price of £2.81 (2006 – £1.90).

6 Share-based payments continued

e) Fair value models:

Nil cost options with internal performance targets are valued using the market price of a share at the date of grant, discounted for expected future dividends to the date of exercise. The fair values of other options with internal performance targets are estimated at the date of grant using the Binomial model. The inputs into the Binomial model are as follows:

	2007	2006
Expected volatility (%)	**28.6**	30.0
Risk free rate (%)	**5.3**	4.5
Dividend yield (%)	**2.0**	2.0

Expected volatility has been arrived at by using the historical volatility of the Group's share price, and the volatility of the share price of similar companies, whose shares have been listed for longer than those of the Group, over a period comparable with the expected lives of the options. The assumptions made to incorporate the effects of expected early exercise have been included by assuming an expected option life based on historical exercise patterns for each option scheme.

The fair values of options with external performance targets are estimated at the date of grant using a Monte Carlo model. The model combines the market price of a share at the date of grant with the probability of meeting performance criteria, based on the historical performance of the Group's shares. The historical performance period reflects a volatility of 27.4%. A dividend yield of 2.0% has been assumed in the model.

f) Charge to income statement:

During the period the Group recognised a charge of £10.4m (2006 – £10.7m) in respect of equity settled share-based payments.

7 Interest payable and receivable

Interest payable is analysed as follows:

	2007 £'000	2006 £'000
Interest on bank loans and overdrafts	**30,283**	13,516
Interest cost of forward currency contracts	**721**	–
Movements in the fair value of forward currency contracts	**347**	–
Other interest payable	**1,062**	283
	32,413	13,799

Interest receivable is analysed as follows:

	2007 £'000	2006 £'000
Interest on cash and cash equivalents	**4,457**	928
Profit on disposal of available-for-sale investments	**1,378**	5,953
Interest income from forward currency contracts	**–**	769
Movements in the fair value of forward currency contracts	**–**	247
Other interest receivable	**219**	193
	6,054	8,090

Notes to the Financial Statements continued

8 Taxation

The tax charge comprises:

	2007 £'000	2006 £'000
Current tax:		
UK corporation tax	**4,892**	8,384
Overseas tax	**15,211**	16,008
	20,103	24,392
Adjustments in respect of prior periods:		
UK corporation tax	**(2,371)**	(5,757)
Overseas tax	**921**	3,440
	(1,450)	(2,317)
Total current tax	**18,653**	22,075
Deferred tax:		
Origination and reversal of timing differences	**(12,944)**	(9,075)
Adjustments in respect of prior periods	**(4,311)**	(2,540)
Total deferred tax	**(17,255)**	(11,615)
Total tax charge	**1,398**	10,460

The tax charge relating to Headline earnings (see note 10) in the period is £17.7m (2006 – £26.7m) representing an effective tax rate of 14.3% (2006 – 19.6%). The tax charge relating to Statutory earnings in the period is £1.4m (2006 – £10.5m) representing an effective tax rate of 2.0% (2006 – 12.9%).

The principal differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax of 30% to profit before taxation are as follows:

	2007 £'000	2006 £'000
Profit before taxation	**68,361**	81,001
Profit before taxation at 30%	**20,508**	24,300
Items attracting no tax relief or liability	**4,376**	4,945
Use of tax losses brought forward and income taxed at lower rates	**(17,263)**	(12,961)
Adjustments in respect of prior periods	**(5,761)**	(4,857)
Other timing differences not recognised in deferred tax	**(462)**	(967)
Total tax charge	**1,398**	10,460

Tax on items recognised directly in reserves is as follows:

	2007 £'000	2006 £'000
Current tax credit on share-based payments	**7,834**	3,703
Deferred tax (debit) credit on share-based payments	**(3,535)**	15,820
Deferred tax (debit) credit on available-for-sale investments	**(1,094)**	74
	3,205	19,597

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the period:

	Acquisition intangibles £'000	Share-based payments £'000	Timing differences on capitalised costs £'000	Tax losses £'000	Other timing differences £'000	Total £'000
At 1 April 2006	(5,851)	27,179	(2,163)	6,432	9,341	34,938
Charge to income	6,567	3,115	1,499	9,064	(2,990)	17,255
Charge to reserves	–	(3,535)	–	–	(1,094)	(4,629)
Acquisition of subsidiaries	(1,928)	–	2,875	940	2,206	4,093
At 31 March 2007	**(1,212)**	**26,759**	**2,211**	**16,436**	**7,463**	**51,657**

No deferred tax assets and liabilities have been offset in either period, except where there is a legal right to do so in the relevant jurisdictions.

At 31 March 2007 the Group had unused tax losses of £193.7m (2006 – £166.4m) available for offset against future taxable profits. A deferred tax asset of £16.4m (2006 – £6.4m) has been recognised in respect of £56.8m (2006 – £20.3m) of such losses, based on expectations of recovery in the foreseeable future.

8 Taxation continued

No deferred tax asset has been recognised in respect of the remaining £136.9m (2006 – £146.1m) as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. Included within unrecognised tax losses are amounts of £12.0m (2006 – £16.7m) that will expire between 2014 and 2018 and £14.0m (2006 – £9.3m) that will expire between 2008 and 2013. Other losses may be carried forward indefinitely.

At 31 March 2007 the aggregate amount of temporary differences associated with the undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £26.1m (2006 – £25.9m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

Tax assets and liabilities at 31 March 2007 do not take into account the impact of the proposed reduction in the UK statutory rate of corporation tax from 30.0% to 28.0% from 1 April 2008 as announced in the March 2007 Budget, as the relevant legislation was not substantively enacted at the balance sheet date.

9 Equity dividends

	2007 £'000	2006 £'000
Final dividend for the period ended 2 April 2005 of 1.25p per ordinary share	**–**	11,005
Interim dividend for the period ended 1 April 2006 of 0.75p per ordinary share	**–**	6,438
Final dividend for the period ended 1 April 2006 of 1.75p per ordinary share	**15,362**	–
Interim dividend for the period ended 31 March 2007 of 1.00p per ordinary share	**8,823**	–
	24,185	17,443
Proposed final dividend for the period ended 31 March 2007 of 2.25p per ordinary share	**19,946**	

The proposed final dividend for the period ended 31 March 2007 is subject to shareholders' approval at the Annual General Meeting and has not been included as a liability in these financial statements.

The expected cost of the proposed final dividend for the period ended 31 March 2007 reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends (see note 24).

10 Reconciliation of Headline information to statutory information

	2007				2006			
	EBITDA £'000	**Operating profit £'000**	**Profit before taxation £'000**	**Net profit for the financial period £'000**	EBITDA £'000	Operating profit £'000	Profit before taxation £'000	Net profit for the financial period £'000
Headline	**293,972**	**149,474**	**123,115**	**105,450**	242,490	141,778	136,069	109,399
Reorganisation costs (see note 4)								
Operating expenses before accelerated amortisation	**–**	**–**	**–**	**–**	(22,288)	(22,288)	(22,288)	(22,288)
Accelerated amortisation	**–**	**–**	**–**	**–**	–	(12,957)	(12,957)	(12,957)
	–	**–**	**–**	**–**	(22,288)	(35,245)	(35,245)	(35,245)
Amortisation of acquisition intangibles	**–**	**(54,225)**	**(54,225)**	**(54,225)**	–	(17,998)	(17,998)	(17,998)
Goodwill expense	**–**	**(529)**	**(529)**	**(529)**	–	(1,825)	(1,825)	(1,825)
	–	**(54,754)**	**(54,754)**	**(54,754)**	–	(19,823)	(19,823)	(19,823)
Taxation:								
On reorganisation costs (see note 4)	**–**	**–**	**–**	**–**	–	–	–	10,574
On amortisation of acquisition intangibles and goodwill expense	**–**	**–**	**–**	**16,267**	–	–	–	5,636
	–	**–**	**–**	**16,267**	–	–	–	16,210
Statutory	**293,972**	**94,720**	**68,361**	**66,963**	220,202	86,710	81,001	70,541

EBITDA represents earnings before interest, taxation, depreciation, amortisation and goodwill expense. Contribution represents EBITDA before support costs. EBIT represents earnings before interest and taxation.

Headline information is provided because the Directors consider that it provides assistance in understanding underlying performance.

Notes to the Financial Statements continued

11 Earnings per share

	2007 £'000	2006 £'000
Statutory earnings	**66,963**	70,541
Headline earnings (see note 10)	**105,450**	109,399

	2007 Number of shares 000's	2006 Number of shares 000's
Weighted average number of shares:		
For basic earnings per share	**892,072**	883,393
Dilutive effect of share options	**49,147**	55,287
For diluted earnings per share	**941,219**	938,680

The number of shares that could be issued but that are not treated as dilutive at 31 March 2007 was 37.3m (2006 – 22.5m).

	Basic pence per share		Diluted pence per share	
	2007	2006	2007	2006
Earnings per share	**7.51**	7.99	**7.11**	7.51
Headline earnings per share (see note 10)	**11.82**	12.38	**11.20**	11.65

Headline earnings per share is provided because the Directors consider that it provides assistance in understanding underlying performance.

12 Goodwill and other intangible fixed assets

	Goodwill £'000
At 1 April 2006	568,630
Acquisition of subsidiaries (see note 14)	90,953
Adjustments to contingent consideration (see note 14)	(8,884)
Adjustments to fair value	(2,416)
Goodwill expense	(529)
Foreign exchange	(8,802)
At 31 March 2007	**638,952**
At 31 March 2007	
Cost (gross carrying amount)	642,264
Accumulated goodwill expense	(3,312)
Net carrying amount	**638,952**

At 2 April 2005	452,023
Acquisition of subsidiaries	119,105
Adjustments to contingent consideration	(4,531)
Goodwill expense	(1,825)
Foreign exchange	3,858
At 1 April 2006	568,630
At 1 April 2006	
Cost (gross carrying amount)	571,413
Accumulated goodwill expense	(2,783)
Net carrying amount	568,630

A goodwill expense of £0.5m (2006 – £1.8m) has been recognised in the period in relation to historical acquisitions.

12 Goodwill and other intangible fixed assets continued

Goodwill has been allocated to cash-generating units ("CGUs"), which are generally based on geographical location. The carrying amount of goodwill by geographical location is as follows:

	2007 £'000	2006 £'000
UK	**341,124**	261,437
France	**88,594**	91,077
Germany	**71,062**	73,054
Spain	**45,583**	46,564
Other	**92,589**	96,498
Total goodwill	**638,952**	568,630

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following fifteen years based on a country-specific growth rate ranging from 1.7% to 3.0%. This rate does not exceed the average long-term growth rate for the relevant markets. The average pre-tax rate used to discount the forecast cash flows is 10%.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period, all of which are based on historical patterns and expectations of future market developments. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The Directors have not identified any CGUs where it is considered likely that key assumptions may change to such an extent that it would lead to a significant impairment loss.

Other intangible fixed assets are analysed as follows:

	Subscriber acquisition costs £'000	Software and licenses £'000	Key money £'000	Acquisition intangibles £'000	**Total other intangibles £'000**
At 1 April 2006	34,180	45,223	23,608	56,263	159,274
Acquisition of subsidiaries (see note 14)	–	10,372	–	334,256	344,628
Additions	71,837	74,560	5,740	–	152,137
Adjustments to contingent consideration (see note 14)	–	–	–	(18,000)	(18,000)
Amortisation	(50,385)	(15,562)	(2,789)	(54,225)	(122,961)
Foreign exchange	(802)	(31)	(653)	–	(1,486)
At 31 March 2007	**54,830**	**114,562**	**25,906**	**318,294**	**513,592**
At 31 March 2007					
Cost (gross carrying amount)	173,892	168,613	37,509	400,029	780,043
Accumulated amortisation	(119,062)	(54,051)	(11,603)	(81,735)	(266,451)
Net carrying amount	**54,830**	**114,562**	**25,906**	**318,294**	**513,592**

	Subscriber acquisition costs £'000	Software and licenses £'000	Key money £'000	Acquisition intangibles £'000	Total other intangibles £'000
At 2 April 2005	18,930	21,664	21,255	7,520	69,369
Acquisition of subsidiaries	–	–	–	68,641	68,641
Additions	51,598	48,937	4,175	–	104,710
Disposals	–	(81)	–	–	(81)
Adjustments to contingent consideration	–	–	–	(1,900)	(1,900)
Amortisation	(36,931)	(12,354)	(1,842)	(17,998)	(69,125)
Accelerated amortisation	–	(12,957)	–	–	(12,957)
Foreign exchange	583	14	20	–	617
At 1 April 2006	34,180	45,223	23,608	56,263	159,274
At 1 April 2006					
Cost (gross carrying amount)	102,456	83,727	32,095	83,773	302,051
Accumulated amortisation	(68,276)	(38,504)	(8,487)	(27,510)	(142,777)
Net carrying amount	34,180	45,223	23,608	56,263	159,274

Notes to the Financial Statements continued

13 Property, plant and equipment

	Freehold land and buildings £'000	Short leasehold costs £'000	Computer hardware, network and office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2006	60,866	64,256	176,247	131,262	2,445	435,076
Additions	16,224	19,432	91,743	36,047	1,398	164,844
Disposals	(5,839)	(4,514)	(2,697)	(3,624)	(150)	(16,824)
Acquisitions (see note 14)	29	147	7,976	139	–	8,291
Foreign exchange	(112)	(980)	(703)	(1,753)	(9)	(3,557)
At 31 March 2007	**71,168**	**78,341**	**272,566**	**162,071**	**3,684**	**587,830**
Depreciation						
At 1 April 2006	(2,825)	(24,692)	(86,617)	(77,797)	(1,401)	(193,332)
Charge for the period	(1,220)	(6,504)	(39,536)	(17,907)	(741)	(65,908)
Disposals	527	1,110	1,767	3,480	100	6,984
Foreign exchange	30	331	457	1,007	5	1,830
At 31 March 2007	**(3,488)**	**(29,755)**	**(123,929)**	**(91,217)**	**(2,037)**	**(250,426)**
Net book value						
At 31 March 2007	**67,680**	**48,586**	**148,637**	**70,854**	**1,647**	**337,404**
At 1 April 2006	58,041	39,564	89,630	53,465	1,044	241,744

	Freehold land and buildings £'000	Short leasehold costs £'000	Computer hardware, network and office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 2 April 2005	54,724	61,364	128,872	100,351	2,310	347,621
Additions	6,285	5,458	44,469	32,748	465	89,425
Disposals	(228)	(3,218)	(1,458)	(2,760)	(335)	(7,999)
Acquisitions	52	–	3,791	79	–	3,922
Foreign exchange	33	652	573	844	5	2,107
At 1 April 2006	60,866	64,256	176,247	131,262	2,445	435,076
Depreciation						
At 2 April 2005	(1,988)	(20,720)	(63,699)	(61,893)	(1,101)	(149,401)
Charge for the period	(941)	(6,331)	(23,939)	(17,834)	(540)	(49,585)
Disposals	124	2,565	1,293	2,327	244	6,553
Foreign exchange	(20)	(206)	(272)	(397)	(4)	(899)
At 1 April 2006	(2,825)	(24,692)	(86,617)	(77,797)	(1,401)	(193,332)
Net book value						
At 1 April 2006	58,041	39,564	89,630	53,465	1,044	241,744
At 2 April 2005	52,736	40,644	65,173	38,458	1,209	198,220

14 Non-current asset investments

	£'000
At 1 April 2006	10,264
Movements in fair value	4,234
At 31 March 2007	**14,498**

Non-current asset investments at 31 March 2007 principally comprise the Group's interest in Frontiers Capital II LP, an independently managed wireless investment fund, and Spinvox Limited, a provider of mobile communication services.

The fair value of non-current asset investments has been determined using European Venture Capital Association guidelines. Movements in fair value are recognised in reserves.

a) Principal Group investments

The Group has investments in the following subsidiary undertakings, which principally affected the profits or losses or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted. All holdings are in equity share capital and give the Group an effective holding of 100% on consolidation.

Name	Country of incorporation or registration	Nature of business
The Carphone Warehouse Limited*	England and Wales	Distribution and Telecoms Services
The Phone House SAS	France	Distribution
Phone Warehouse SL	Spain	Distribution
Opal Telecom Limited*	England and Wales	Telecoms Services
The Phone House Telecom GmbH	Germany	Telecoms Services
TalkTalk Telecom Limited*	England and Wales	Telecoms Services
CPW Broadband Services (UK) Limited*	England and Wales	Telecoms Services
Onetel Telecommunications Limited*	England and Wales	Telecoms Services
New Technology Insurance	Ireland	Insurance
The Phone House Holdings (UK) Limited*	England and Wales	Holding company

*held directly by the Company.

Notes to the Financial Statements continued

14 Non-current asset investments continued

b) Acquisitions

i) AOL UK internet access business

On 29 December 2006, the Group acquired the trade and assets of the internet access business of AOL (UK) Limited, 100% of the issued share capital of AOL Services (UK) Limited, registered in England and Wales, 100% of the issued share capital of AOL Europe Operations Limited, registered in Ireland, and 100% of the issued share capital of AOL Services Sarl, registered in Luxembourg, for a total consideration of £379.9m. Total consideration comprises initial cash consideration and fees of £251.5m, and deferred consideration of £128.4m, which is subject to working capital adjustments. Of this amount, £58.4m is payable within 1 year and £70.0m is payable after 1 year.

The following table sets out the book values of the identifiable assets and liabilities acquired and their provisional fair value to the Group:

	Book value £'000	Accounting policy alignments £'000	Fair value adjustments £'000	Fair value to the Group £'000
Non-current assets				
Acquisition intangibles	–	–	323,563	323,563
Other intangible assets	12,889	–	(2,517)	10,372
Property, plant and equipment	40,239	–	(32,209)	8,030
Deferred tax (liabilities) assets	(1,063)	–	5,537	4,474
Current assets				
Stock	137	(49)	–	88
Trade and other receivables	19,563	(685)	–	18,878
Cash and cash equivalents	181	–	–	181
Total assets	71,946	(734)	294,374	365,586
Current liabilities				
Trade and other payables	(50,719)	(2,509)	(420)	(53,648)
Provisions	–	–	(7,910)	(7,910)
Total liabilities	(50,719)	(2,509)	(8,330)	(61,558)
Total assets and liabilities	21,227	(3,243)	286,044	304,028
Provisional goodwill				75,872
				379,900
Satisfied by				
Cash				251,542
Deferred consideration				128,358
				379,900

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	251,542
Cash acquired	(181)
	251,361

Fair value adjustments relate principally to:

- the recognition of the following acquisition intangibles:
  - customer bases comprising broadband, narrowband and voice customers valued at £279.0m. The valuation is derived from the discounted future cash flows expected to be generated by the customer bases, after a deduction for contributory assets;
  - rights, subject to future performance criteria, to a share of transactional revenues generated by AOL access and TalkTalk customers on AOL sites. These rights are valued at £34.7m, based on discounted expected future cash flows, after a deduction for contributory assets;
  - a license to continue to use the AOL brand for a limited period, valued at £9.9m using the relief from royalty method, which reflects the discounted future cash flows saved from not incurring royalty payments.
- the write-down of property, plant and equipment and software development to its market value;
- the recognition of deferred tax, principally in respect of accelerated capital allowances and intangible assets; and
- the recognition of unrecorded liabilities and provision for onerous contracts.

The goodwill arising on the acquisition of AOL is attributable primarily to the removal of a significant competitor to TalkTalk in the residential broadband market and the anticipated future operating synergies arising from the combination.

The Group's results for the period reflect revenue from AOL of £106.8m and a loss before taxation of £3.5m.

14 Non-current asset investments continued

ii) Alto Hiway

On 30 September 2006, the Group acquired 100% of the issued share capital of Hicom Internet Limited and its wholly owned subsidiary, Alto Hiway Limited (together Alto Hiway), both companies being registered in England and Wales, for an upfront gross cash consideration of £5.4m and deferred consideration of £2.0m which is contingent on future performance and payable over 3 years. Alto Hiway is a business internet service provider.

The following table sets out the book values of the identifiable assets and liabilities acquired and their provisional fair value to the Group:

	Book value £'000	Fair value adjustments £'000	Fair value to the Group £'000
Non-current assets			
Acquisition intangibles	–	2,690	2,690
Property, plant and equipment	261	–	261
Current assets			
Stock	19	–	19
Trade and other receivables	1,588	–	1,588
Cash and cash equivalents	1,456	–	1,456
Total assets	3,324	2,690	6,014
Current liabilities			
Trade and other payables	(4,600)	–	(4,600)
Non-current liabilities			
Deferred tax liabilities	–	(808)	(808)
Total liabilities	(4,600)	(808)	(5,408)
Total assets and liabilities	(1,276)	1,882	606
Provisional goodwill			6,787
			7,393
Satisfied by			
Cash			5,393
Deferred consideration			2,000
			7,393

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	5,393
Cash acquired	(1,456)
	3,937

Fair value adjustments relate principally to the recognition of acquisition intangibles, being a customer base with a value of £2.7m, and the recognition of deferred tax thereon.

The Group's results for the period reflect revenue from Alto Hiway of £3.9m and a loss before taxation of £1.0m.

Notes to the Financial Statements continued

14 Non-current asset investments continued

iii) Other acquisitions

The Group made a number of other acquisitions during the period for a gross cash consideration of £13.4m. These acquisitions resulted in goodwill of £8.3m.

In addition, goodwill was reduced by £8.9m as a result of adjustments to contingent deferred consideration and by a net £2.4m due to the finalisation of provisional fair value adjustments in both Onetel and Tele2 UK, principally in respect of unrecorded liabilities.

Deferred consideration of £7.5m was paid during the period in respect of acquisitions made in previous periods. This was offset by a reimbursement of contingent consideration of £18.0m in relation to Onetel, which was acquired in December 2005.

The following summary shows the net cash outflow on acquisitions during the period:

	Gross cash consideration £'000	Overdrafts (cash) acquired £'000	Net cash outflow £'000
AOL UK internet access business	251,542	(181)	251,361
Alto Hiway	5,393	(1,456)	3,937
Adjustments to contingent consideration on acquisitions in previous periods	(10,515)	–	(10,515)
Other	13,363	123	13,486
	259,783	(1,514)	258,269

Combined pro-forma revenue and profit before taxation for the Group, assuming all acquisitions had been made on 2 April 2006, are £4,318.4m and £58.0m.

15 Interests in joint ventures

	£'000
At 1 April 2006	–
Additions	11,290
Share of results for the period	(9,854)
At 31 March 2007	**1,436**

Additions to joint ventures reflects a cash contribution of £8.3m and a non-cash contribution of £3.0m relating to the transfer of the trade and assets of Omer Telecom SAS, a former subsidiary of the Group, into the Virgin Mobile France joint venture.

Interests in joint ventures are as follows:

Business	Interest	Principal activities
Best Buy Mobile US	50.0%	Retail
Geek Squad UK	50.0%	Home technology support services
Virgin Mobile France	48.5%	MVNO

The Group's share of the results, assets and liabilities of Virgin Mobile France for the period are:

	£'000
Share of turnover	22,529
Share of loss before tax	(12,082)
Share of taxation	3,625
Share of loss after tax	(8,457)
Share of assets	
Share of non-current assets	904
Share of current assets	26,246
	27,150
Share of liabilities	
Share of current liabilities	(29,002)
Share of non-current liabilities	(6,605)
	(35,607)
Share of net liabilities	(8,457)

16 Stock

	2007 £'000	2006 £'000
Finished goods and goods for resale	**161,532**	138,047

The difference between the balance sheet value of stock and its replacement cost is not material.

17 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	**677,420**	505,400
Other receivables	**19,075**	10,965
Prepayments and accrued income	**47,355**	38,107
	743,850	554,472

Trade receivables are stated at their initial value reduced by appropriate provision for estimated irrecoverable amounts. Included within trade receivables are provisions for doubtful debts of £50.2m (2006 – £50.3m). The average credit period taken on trade receivables, calculated by reference to the amount owed at the period end as a proportion of total revenue in the period, adjusted to take account of the timing of acquisitions, was 57 days (2006 – 53 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18 Current asset investments

	2007 £'000	2006 £'000
Available-for-sale investments	**2,314**	5,153
Forward currency contracts (see note 21)	**–**	80
	2,314	5,233

There are no listed investments within current asset investments (2006 – £nil). Investments are stated at market value, which is provided by third-party fund managers.

19 Trade and other payables

Current:	2007 £'000	2006 £'000
Trade payables	**439,446**	352,101
Other taxes and social security costs	**85,231**	69,831
Other creditors	**83,595**	34,089
Accruals and deferred income	**313,650**	185,988
Forward currency contracts (see note 21)	**267**	–
	922,189	642,009

Non-current:	2007 £'000	2006 £'000
Other creditors	**71,550**	6,689

The average credit period taken on trade payables, calculated by reference to the amounts owed at the period end as a proportion of the amounts invoiced by suppliers in the period, adjusted to take account of the timing of acquisitions, was 43 days (2006 – 43 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Notes to the Financial Statements continued

20 Cash and cash equivalents, loans and other borrowings

Cash and cash equivalents comprise:

	2007 £'000	2006 £'000
Cash at bank and in hand	**38,088**	51,840
Short-term bank deposits and money market funds	**72,972**	46,253
	111,060	98,093

The effective interest rate on bank deposits and money market funds was 4.92% (2006 – 4.54%).

Within cash and cash equivalents and current asset investments, £79.5m (2006 – £77.0m) is held by the Group's insurance business to cover regulatory reserve requirements. As such, these funds are not available to offset other Group borrowings.

Loans and other borrowings comprise:

Current:	Maturity	2007 £'000	2006 £'000
Bank overdrafts	On demand	**12,170**	21,136
Other uncommitted bank loans	On demand	**10,000**	20,039
Loan notes	On demand	**483**	15,558
		22,653	56,733

Non-current:			
£450m revolving credit facility	2009	**60,000**	40,000
£50m term loan	2010	**50,000**	50,000
£225m term loan	2011	**223,733**	230,054
£375m term loan	2011	**373,904**	–
		707,637	320,054

All borrowings are unsecured.

Bank overdrafts and other uncommitted bank loans:

The Group has a variety of overdraft facilities in Sterling, Euro and other European currencies. These facilities are domiciled in various countries and interest is charged at the standard overdraft rates applicable in the countries concerned. Some of the Group's major banks make uncommitted facilities available to assist with short-term liquidity management. These facilities bear interest based on the appropriate local interest rates. All of these facilities are repayable on demand.

Loan notes:

The Group has issued a number of interest-bearing loan notes. These loan notes are repayable on demand and expire between 2012 and 2015. No new loan notes were issued during the period (2006 – £2.4m) and £15.1m (2006 – £6.6m) were redeemed or cancelled.

£450m Revolving Credit Facility ("RCF"):

The RCF was signed in September 2004 and the amount available was increased from £300m to £450m in the prior period. The facility is repayable in full in September 2009. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of debt to EBITDA calculated in respect of the most recent accounting period. A non-utilisation fee is payable in respect of amounts available but undrawn under this facility. Covenants are included in this facility that limit the ratio of debt to EBITDA, interest cover and fixed charges (interest and operating lease expenditure) cover. The Group was in compliance with these covenants at the period end.

£50m term loan:

The five-year bi-lateral £50m term loan, which was signed in December 2005, is fully drawn in Sterling. The interest rate is calculated in a similar manner to the £450m RCF. The loan is repayable in full in December 2010. The covenant package is identical to that in the £450m RCF.

£225m term loan:

The £225m term loan, which was signed in February 2006, is fully drawn in Euro. The interest rate is calculated in a similar manner to the £450m RCF. The loan is repayable in full in February 2011. The covenant package is identical to that in the £450m RCF.

£375m term loan:

In October 2006, the Group agreed a new term loan facility of £375m to assist with the acquisition of AOL's UK internet access business. The maximum term of this facility is seven years comprising a five year initial term and two one-year extension options, which are exercisable at the discretion of the bank group. If both extension options are exercised, the final maturity date will be October 2013. The terms of the new facility are similar to the Group's other committed bank facilities, and the covenant package is identical to that in the £450m RCF.

20 Cash and cash equivalents, loans and other borrowings continued

Borrowing facilities:

The Group had undrawn committed borrowing facilities at 31 March 2007, in respect of which all conditions precedent had been met, as follows:

	2007 £'000	2006 £'000
Maturing in 2009	**390,000**	410,000

The undrawn committed facilities shown above are the undrawn portion of the £450m RCF.

Debt maturity profile:

The maturity of the Group's borrowings is as follows:

	2007 £'000	2006 £'000
Less than 1 year	**22,653**	56,733
2 to 3 years	**60,000**	–
3 to 4 years	**273,733**	40,000
4 to 5 years	**373,904**	280,054
Total	**730,290**	376,787

Currency profile of borrowings:

					2007			2006
By instrument	**Sterling £'000**	**Euro £'000**	**Swiss Franc £'000**	**Other £'000**	**Total £'000**	Sterling £'000	Euro £'000	Total £'000
Bank loans and overdrafts	**130,470**	**224,757**	**373,904**	**676**	**729,807**	130,331	230,898	361,229
Loan notes	**483**	**–**	**–**	**–**	**483**	15,558	–	15,558
Total	**130,953**	**224,757**	**373,904**	**676**	**730,290**	145,889	230,898	376,787

Included in other bank loans and overdrafts are South African Rand, Swedish Krona and US Dollar borrowings.

Liquidity risk:

To ensure the continuity of Group funding whilst also minimising the interest cost, borrowings are spread between long-term committed facilities, short-term uncommitted bank loans and overdrafts with short-term cash surpluses invested overnight.

21 Financial instruments

The Business Review on pages 10 to 16 provides an explanation of the role that financial instruments have in managing the Group's currency and interest rate risk.

Interest rate profile of financial assets and liabilities:

The interest rates on floating rate financial assets and liabilities are linked to market interest rates, mainly on an overnight basis or for one, two or three month periods. Future cashflows arising from these financial assets and liabilities depend on interest periods agreed at the time of rollover and, as such, all financial assets and liabilities are classified as floating rate.

The weighted average interest rate for loans and overdrafts was 4.29% (2006 – 3.28%).

The book value and fair value of the Group's financial assets and liabilities is as follows:

	2007		2006	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Financial assets				
By instrument				
Cash at bank and in hand	**38,088**	**38,088**	51,840	51,840
Short-term bank deposits and money market funds	**72,972**	**72,972**	46,253	46,253
Available-for-sale investments	**2,314**	**2,314**	5,153	5,153
Forward currency contracts	**–**	**–**	80	80
Financial liabilities				
By instrument				
Bank overdrafts	**(12,170)**	**(12,170)**	(21,136)	(21,136)
Other uncommitted bank loans	**(10,000)**	**(10,000)**	(20,039)	(20,039)
Committed bank loans	**(707,637)**	**(707,637)**	(320,054)	(320,054)
Loan notes	**(483)**	**(483)**	(15,558)	(15,558)
Forward currency contracts	**(267)**	**(267)**	–	–

The fair value of available-for-sale investments has been provided by third-party fund managers. Other fair values have been arrived at by discounting future cashflows, assuming no early redemption, or by revaluing forward currency contracts to period-end market rates or rates as appropriate to the instrument.

Foreign exchange derivatives:

The Group uses forward currency contracts to hedge transactional exposures. These contracts are mainly denominated in Euros, South African Rand and US Dollars and primarily cover stock purchases and operating expenses. The Group also uses forward currency contracts to hedge balance sheet assets and liabilities and also for short-term liquidity management. The Group currently holds no currency option contracts.

At 31 March 2007, the total notional principal amount of outstanding currency contracts was £171.0m (2006 – £129.4m). Within this balance, £6.0m (2006 – £nil) is held in relation to cash flow hedges, for which the associated fair value gains and losses will be transferred to operating profit when the transactions occur over the next 12 months. The balance relates to investments in and loans to the Group's non-Sterling operations. The amount transferred to income in respect of forward currency contracts was an expense of £0.3m (2006 – income of £0.2m).

The Group does not hedge the balance sheet translation risk of its foreign operations.

Functional currency:

The functional currency of individual companies within the Group varies with the territory in which they operate and the five currencies in which subsidiary companies prepare their accounts are: Sterling, Euro, South African Rand, Swiss Franc and Swedish Krona. Material financial assets and financial liabilities held by Group companies, which differ from their functional currency are as follows:

	2007				2006			
	Euro £'000	**Swiss Franc £'000**	**Other £'000**	**Total £'000**	Euro £'000	Swiss Franc £'000	Other £'000	Total £'000
Financial liabilities								
By functional currency of Group operation								
Sterling	**(343,325)**	**(383,972)**	**(35,574)**	**(762,871)**	(213,664)	(10,588)	18,996	(205,256)

The financial liabilities hedge net inter-company currency exposures and, as such, do not create foreign exchange risk in the income statement.

Embedded derivatives:

No contracts with embedded derivatives have been identified and accordingly no such derivatives have been accounted for separately.

Securities and guarantees:

None of the financial liabilities are secured over Group assets. Although some guarantees are given by Group companies, these are to cover commercial obligations and, as such, no additional credit risk is created.

22 Provisions

	Insurance £'000	Reorganisation £'000	Sales £'000	Other £'000	Total £'000
At 1 April 2006	9,404	22,267	67,432	24,435	123,538
Acquisitions (see note 14)	–	–	–	7,910	7,910
Utilised in the period	(29,106)	(13,094)	(130,622)	(10,489)	(183,311)
Released in the period	–	(5,749)	–	–	(5,749)
Charge to income statement	29,858	5,700	131,648	731	167,937
Foreign exchange	–	(29)	(157)	(203)	(389)
At 31 March 2007	**10,156**	**9,095**	**68,301**	**22,384**	**109,936**

	Insurance £'000	Reorganisation £'000	Sales £'000	Other £'000	Total £'000
At 2 April 2005	7,026	6,799	28,758	15,246	57,829
Acquisitions	–	–	–	14,589	14,589
Utilised in the period	(26,722)	(4,911)	(67,070)	(6,444)	(105,147)
Released in the period	–	(1,921)	–	(1,029)	(2,950)
Charge to income statement	29,100	22,288	105,610	1,962	158,960
Foreign exchange	–	12	134	111	257
At 1 April 2006	9,404	22,267	67,432	24,435	123,538

Provisions are categorised as follows:

Insurance:
Insurance provisions represent the anticipated costs of all policyholder claims notified but not settled and claims incurred but not reported at the balance sheet date. Insurance provisions are expected to be utilised within one year.

Reorganisation:
Reorganisation provisions at the start of the period relate principally to a store closure programme launched in the period ended 30 March 2002, the costs associated with the ongoing implementation of shared service functions, and the reorganisation programme started in the prior period to integrate Onetel with the rest of the Group. The costs of the Onetel integration were estimated at £22.3m (see note 4), principally being redundancy and other employee costs, contract termination costs, and network and customer migration costs. These costs have been substantially incurred in the period ended 31 March 2007 and the remaining costs are expected to be incurred in the period ending 29 March 2008. The release in the period relates to redundancies and contract termination costs, which were over-estimated at 1 April 2006. The impact of this release is offset by further provision for network and customer migration costs, which were under-estimated at 1 April 2006.

Sales:
Sales provisions relate to "cash-back" and similar promotions, product warranties, product returns, and network operator performance penalties. Sales provisions are expected to be used within the following 12 to 24 months.

Other:
Other provisions relate to dilapidations and similar property costs, and all other provisions, principally being the anticipated costs of unresolved tax issues and legal disputes, and costs associated with onerous contracts.

23 Share capital

	2007 million	2006 million	**2007 £'000**	2006 £'000
Authorised				
Ordinary shares of 0.1p each	**1,500**	1,500	**1,500**	1,500
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**896**	888	**896**	888

Movements in share capital in the period arose from the exercise of share options.

Notes to the Financial Statements continued

24 Reserves

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Accumulated profits £'000	Total £'000
At 1 April 2006	888	418,359	30	2,074	197,652	619,003
Net profit for the financial period	–	–	–	–	66,963	66,963
Currency translation	–	–	–	(170)	–	(170)
Tax on items recognised directly in reserves (see note 8)	–	–	–	–	3,205	3,205
Net change in available-for-sale investments	–	–	–	–	3,668	3,668
Issue of share capital	8	8,446	–	–	–	8,454
Net sale of own shares (see below)	–	–	–	–	599	599
Unrealised gain on disposal of subsidiary (see below)	–	–	–	–	1,676	1,676
Net cost of share-based payments (see note 6)	–	–	–	–	10,410	10,410
Equity dividends (see note 9)	–	–	–	–	(24,185)	(24,185)
At 31 March 2007	**896**	**426,805**	**30**	**1,904**	**259,988**	**689,623**

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Accumulated profits £'000	Total £'000
At 3 April 2005	877	402,136	30	5,718	131,457	540,218
Net profit for the financial period	–	–	–	–	70,541	70,541
Currency translation	–	–	–	(3,644)	–	(3,644)
Tax on items recognised directly in reserves	–	–	–	–	19,597	19,597
Net change in available-for-sale investments	–	–	–	–	4,236	4,236
Issue of share capital	11	16,223	–	–	(5,550)	10,684
Net purchase of own shares	–	–	–	–	(15,851)	(15,851)
Net cost of share-based payments	–	–	–	–	10,665	10,665
Equity dividends	–	–	–	–	(17,443)	(17,443)
At 1 April 2006	888	418,359	30	2,074	197,652	619,003

Net sale of own shares:

The Group has an Employee Share Ownership Trust ("ESOT") which holds 9.8m shares (2006 – 14.1m) in the Company for the benefit of the Group's employees.

The ESOT has waived its rights to receive dividends and none of its shares has been allocated to specific schemes.

At 31 March 2007 the shares had a carrying value of £16.2m and a market value of £27.1m (2006 – carrying value £23.5m, market value £43.5m).

Unrealised gain on disposal of subsidiary:

On 3 April 2006, the Group disposed of the assets and customers of Omer Telecom SAS, the Group's MVNO operation in France, to a joint venture, Omer Telecom Limited, trading as Virgin Mobile, in which the Group owns a 48.5% holding. The disposal resulted in an unrealised gain of £1.7m, which has been recognised in reserves in accordance with SIC13 'Jointly Controlled Entities – Non Monetary Contributions by Venturers'.

25 Analysis of changes in net debt

	At 1 April 2006 £'000	Cash flows £'000	Exchange differences £'000	Non-cash movements £'000	**At 31 March 2007 £'000**
Cash and cash equivalents	98,093	13,307	(340)	–	**111,060**
Bank overdrafts	(21,136)	8,942	24	–	**(12,170)**
	76,957	22,249	(316)	–	**98,890**
Current loans and other borrowings	(35,597)	25,114	–	–	**(10,483)**
Non-current loans and other borrowings	(320,054)	(399,248)	11,665	–	**(707,637)**
	(355,651)	(374,134)	11,665	–	**(718,120)**
Current asset investments	5,233	(2,353)	–	(566)	**2,314**
Total	(273,461)	(354,238)	11,349	(566)	**(616,916)**

	At 3 April 2005 £'000	Cash flows £'000	Exchange differences £'000	Non-cash movements £'000	At 1 April 2006 £'000
Cash and cash equivalents	41,576	56,357	160	–	98,093
Bank overdrafts	(22,224)	1,105	(17)	–	(21,136)
	19,352	57,462	143	–	76,957
Current loans and other borrowings	(49,770)	14,174	(1)	–	(35,597)
Non-current loans and other borrowings	(98,494)	(211,799)	(9,761)	–	(320,054)
	(148,264)	(197,625)	(9,762)	–	(355,651)
Current asset investments	62,446	(56,619)	–	(594)	5,233
Total	(66,466)	(196,782)	(9,619)	(594)	(273,461)

Details of cash flows associated with acquisitions during the period are provided in note 14.

26 Commitments under operating leases

The Group leases retail units and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights.

Future minimum rentals payable under non-cancellable operating leases as at 31 March 2007 are as follows:

	2007 £'000	2006 £'000
Operating leases which expire:		
Within one year	**87,002**	74,636
In two to five years	**266,043**	228,965
After five years	**251,261**	234,369
	604,306	537,970

The Group has some leases that include revenue related rental payments that are contingent on store performance. The analysis above includes only the minimum rental commitment.

27 Capital commitments

	2007 £'000	2006 £'000
Expenditure contracted, but not provided for in the financial statements	**22,981**	20,189

28 Pension arrangements

The Group provides various pension schemes for the benefit of a significant number of its employees:

Defined contribution schemes:

The Group operates a number of defined contribution schemes for which the cost for the period was £3.4m (2006 – £2.8m).

Defined benefit schemes:

At 31 March 2007, the Group was in the process of completing the winding up of a defined benefit pension scheme. This process was completed in April 2007, from which point the Group retained no obligations in relation to the funding of scheme benefits.

Notes to the Financial Statements continued

29 Contingent liabilities
European VAT authorities continue to investigate the recovery of VAT in the industry for trading activities conducted prior to April 2003. Having undertaken a detailed internal investigation and taken advice, the Directors continue to believe that there is no financial exposure to this issue within the financial statements.

30 Related party transactions
During the reporting period, the Group had the following disclosable transactions with its joint ventures (see note 15):

	Sale of stock £'000	Interest income £'000	Income from services provided £'000	Amounts owed to the Group £'000
Best Buy Mobile US	–	–	–	1,368
Geek Squad UK	–	–	–	811
Virgin Mobile France	23,769	272	6,092	6,610
	23,769	272	6,092	8,789

All products and services were provided at market rates.

31 Post balance sheet events
On 14 May 2007, the Group disposed of 62% of one of its French subsidiaries, The Phone House Services Telecoms SAS, for an initial cash consideration of £11.2m.

Five Year Record (unaudited)

	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	UK GAAP 2004 £m	UK GAAP 2003 £m
Headline results					
Revenue	**3,991.5**	3,046.4	2,355.1	1,849.0	1,841.5
EBITDA	**294.0**	242.5	173.3	122.8	90.0
PBT	**123.1**	136.1	100.4	76.3	57.0
Assets employed					
Non-current assets	**1,557.5**	1,014.8	730.2	604.6	511.7
Net current assets (liabilities) before provisions	**21.2**	54.4	(17.1)	25.1	24.4
Provisions	**(109.9)**	(123.5)	(57.8)	(40.2)	(31.1)
Non-current liabilities	**(779.2)**	(326.7)	(107.3)	(117.7)	(49.4)
Total assets and liabilities	**689.6**	619.0	548.0	471.8	455.6
Financed by					
Shareholders' funds	**689.6**	619.0	548.0	471.8	455.6
Headline earnings per share					
Basic	**11.8p**	12.4p	9.3p	6.8p	5.3p
Diluted	**11.2p**	11.7p	8.9p	6.7p	5.2p

Statement of Directors' Responsibilities on the Company Financial Statements

The Directors are responsible for preparing the annual report and the financial statements. The Directors have chosen to prepare the accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

United Kingdom company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Each of the persons who is a Director at the date of approval of this Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Independent Auditors' Report on the Company Financial Statements

Independent Auditors' Report to the Members of The Carphone Warehouse Group PLC

We have audited the individual Company financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 31 March 2007 which comprise the Balance Sheet and the related notes 1 to 13. These individual Company financial statements have been prepared under the accounting policies set out therein.

The Corporate Governance statement and the Remuneration Report are included in the Group annual report of The Carphone Warehouse Group PLC for the 52 weeks ended 31 March 2007. We have reported separately on the Group financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 31 March 2007 and on the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report on page 31 is consistent with the individual Company financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the individual Company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

4 June 2007

Company Balance Sheet

As at 31 March 2007

	Notes	31 March 2007 £'000	Restated (see note 11) 1 April 2006 £'000
Fixed assets			
Investments	4	**874,745**	735,155
		874,745	735,155
Current assets			
Current asset investments	5	**–**	80
Cash and cash equivalents		**17,292**	–
Debtors	6	**1,424,448**	788,965
		1,441,740	789,045
Creditors: amounts falling due within one year	7	**(918,099)**	(597,280)
Net current assets		**523,641**	191,765
Total assets less current liabilities		**1,398,386**	926,920
Creditors: amounts falling due after more than one year	8	**(709,187)**	(320,054)
Net assets		**689,199**	606,866
Capital and reserves			
Called-up share capital	10	**896**	888
Share premium	11	**426,805**	418,359
Profit and loss account	11	**261,498**	187,619
Total capital employed	12	**689,199**	606,866

The accompanying notes are an integral part of this balance sheet.

The financial statements on pages 67 to 71 were approved by the Board on 4 June 2007 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Notes to the Company Financial Statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention, as modified by FRS26 'Financial Instruments: Measurement'. The principal accounting policies set out below have been applied consistently throughout the current and preceding period, except for the amendment to FRS26 and the accounting interpretation to FRS20 'Group and Treasury Share Transactions' that came into force in the current financial period, which are as follows:

FRS26 'Financial Instruments: Measurement'

The accounting policy relating to financial instruments has remained consistent with the prior period except for a change in the accounting treatment of financial guarantee contracts arising from the adoption of the Amendment to FRS26, which was issued by the Accounting Standards Board in April 2005 (see Financial guarantees below).

UITF44 'FRS20 – Group and Treasury Share Transactions'

The Company has adopted UITF44 and in accordance with the interpretation has restated the balance sheet with effect from 3 April 2005. The UITF requires that the issue of options over the Company's shares to its subsidiary undertakings represents a capital contribution, resulting in an addition to investments and a corresponding increase in shareholders' equity (see Share-based payments below).

The Carphone Warehouse Group PLC consolidated financial statements for the period ended 31 March 2007 contain a consolidated statement of cashflows. Consequently, the Company has applied the exemption in FRS1 'Cash Flow Statements' not to present its own cash flow statement.

Investments

Investments held in Group companies are recognised at cost, being the fair value of the consideration, acquisition charges associated with the investment, and capital contributions by way of share-based payments, less any provision for permanent diminution in value.

Investments held in non-Group companies are treated as available-for-sale and recorded at fair value. Changes in fair value, together with any related deferred taxation, are taken directly to reserves, and recycled to the profit and loss account when the investment is sold or is determined to be impaired.

Share-based payments

The Company issues equity settled share-based payments to certain employees in the Group. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (such as Earnings Per Share targets) and a Monte Carlo model for those with external performance criteria (such as Total Shareholder Return targets).

For schemes with internal performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account, with a corresponding entry in reserves.

For schemes with external performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account, with a corresponding entry in reserves.

Share-based payments issued by the Company to its subsidiary undertakings are treated as additions to investments based on the fair value of the grant, spread over the relevant vesting period, with a corresponding credit to reserves. Where the Company recharges the cost of share-based payments to its subsidiary undertakings the investment is reduced accordingly.

Dividends

Dividends receivable from the Company's subsidiaries are recognised only when they are approved by shareholders.

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are paid.

Foreign currency translation

Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates thus obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Material monetary assets and liabilities denominated in foreign currencies are hedged, mainly using forward foreign exchange contracts to create matching liabilities and assets, and are retranslated at each balance sheet date. Hedge accounting as defined by FRS26 has been applied in the period.

Financial guarantees

The Company has guaranteed certain commitments given by subsidiary undertakings. The fair value of any such guarantees is amortised through the profit and loss account on a straight-line basis over the guarantee period.

2 Profit and loss account

In accordance with the exemption permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented separately. The profit recognised for the period was £83.4m (2006 – £234.3m).

Audit fees for the audit of the individual Company financial statements are £0.01m (2006 – £0.01m).

3 Equity dividends

	2007 £'000	2006 £'000
Final dividend for the period ended 2 April 2005 of 1.25p per ordinary share	–	11,005
Interim dividend for the period ended 1 April 2006 of 0.75p per ordinary share	–	6,438
Final dividend for the period ended 1 April 2006 of 1.75p per ordinary share	15,362	–
Interim dividend for the period ended 31 March 2007 of 1.00p per ordinary share	8,823	–
	24,185	17,443

Proposed final dividend for the period ended 31 March 2007 of 2.25p per ordinary share	19,946	

The proposed final dividend for the period ended 31 March 2007 is subject to shareholders' approval at the Annual General Meeting and has not been included as a liability in these financial statements.

The expected cost of the proposed final dividend for the period ended 31 March 2007 reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends.

4 Fixed asset investments

	£'000
At 1 April 2006 as restated	735,155
Additions	158,891
Disposals	(16,776)
Foreign exchange	(6,759)
Movements in fair value	4,234
At 31 March 2007	**874,745**

	£'000
At 3 April 2005 as previously stated	413,108
Adoption of UITF44 (see note 11)	1,828
At 3 April 2005 as restated	414,936
Additions (restated)	309,499
Disposals	(363)
Foreign exchange	6,253
Movements in fair value	4,830
At 1 April 2006 as restated	735,155

Fixed asset investments at 31 March 2007 comprise £860.7m in relation to subsidiary undertakings and £14.0m in relation to non-Group investments. The non-Group investments relate to interests in Frontiers Capital II LP, an independently managed wireless investment fund and Spinvox Limited, a provider of mobile communication services.

Additions include £6.1m (2006 – £7.5m, as restated) of capital contributions to subsidiary undertakings by way of share-based payments in accordance with UITF44 (see note 11).

The fair value of the non-Group fixed asset investments has been determined using the European Venture Capital Association guidelines. Movements in fair value are recognised in reserves.

Details of the Company's investments in material subsidiary undertakings are provided in note 14 to the Group's financial statements.

5 Current asset investments

	2007 £'000	2006 £'000
Forward currency contracts	–	80

Notes to the Company Financial Statements continued

6 Debtors

	2007 £'000	2006 £'000
Amounts owed by Group undertakings	**1,416,412**	787,831
Other debtors	**8,036**	–
Prepayments and accrued income	**–**	1,134
	1,424,448	788,965

Amounts owed by Group undertakings are repayable within twelve months of the balance sheet date.

7 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Loans and overdrafts	**9,716**	45,448
Amounts owed to Group undertakings	**894,831**	537,297
Other creditors	**829**	4,096
Forward currency contracts	**267**	–
Accruals and deferred income	**12,456**	10,439
	918,099	597,280

8 Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Loans	**707,637**	320,054
Other creditors	**1,550**	–
	709,187	320,054

9 Financial instruments

The Company has applied the exemption under FRS25 'Financial Instruments: Disclosure and Presentation' not to disclose details of financial instruments held by the individual Company. Full disclosure of the Group's financial instruments under IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' is provided in note 21 to the Group financial statements.

10 Share capital

	2007 million	2006 million	2007 £'000	2006 £'000
Authorised				
Ordinary shares of 0.1p each	**1,500**	1,500	**1,500**	1,500
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**896**	888	**896**	888

Movements in share capital in the period arose from the exercise of share options.

11 Reserves

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 1 April 2006 as restated	888	418,359	187,619	606,866
Retained profit for the financial period	–	–	59,235	59,235
Change in fair value of fixed asset investments	–	–	4,234	4,234
Issue of share capital	8	8,446	–	8,454
Net cost of share-based payments	–	–	10,410	10,410
At 31 March 2007	**896**	**426,805**	**261,498**	**689,199**

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 3 April 2005 as previously stated	877	402,136	(46,520)	356,493
Adoption of UITF44 (see below)	–	–	1,828	1,828
At 3 April 2005 as restated	877	402,136	(44,692)	358,321
Retained profit for the financial period	–	–	216,816	216,816
Change in fair value of fixed asset investments	–	–	4,830	4,830
Issue of share capital	11	16,223	–	16,234
Net cost of share-based payments (restated)	–	–	10,665	10,665
At 1 April 2006 as restated	888	418,359	187,619	606,866

As explained in note 1, the Company adopted UITF44 in the period and has restated shareholders' funds at 3 April 2005 and 1 April 2006 to reflect this. The effect of the adjustment is to recognise a cumulative increase in reserves of £1.8m at 3 April 2005 and £9.3m at 1 April 2006 with a corresponding increase to fixed asset investments to reflect the net cost of share-based payments awarded to employees of subsidiary undertakings in both periods.

Included in the financial profit for the Company for the period is a share-based payment charge of £4.5m (2006 – £3.2m) representing the cost of share-based payments granted to Group employees whose costs are borne by the Company.

The only direct employees of the Company are the Directors detailed on page 21; details of their share options are shown in the Remuneration Report on pages 25 to 30.

12 Reconciliation of movements in shareholders' funds

	2007 £'000	Restated (see note 11) 2006 £'000
Profit for the financial period	**83,420**	234,259
Equity dividends	**(24,185)**	(17,443)
	59,235	216,816
Change in fair value of fixed asset investments	**4,234**	4,830
Issue of share capital	**8,454**	16,234
Net cost of share-based payments	**10,410**	10,665
Net movement in shareholders' funds	**82,333**	248,545
Opening shareholders' funds as previously stated	**597,572**	356,493
Adoption of UITF44 (see note 11)	**9,294**	1,828
Opening shareholders' funds as restated	**606,866**	358,321
Closing shareholders' funds	**689,199**	606,866

13 Related party transactions

The Company has taken advantage of the exemption under FRS8 'Related Party Disclosures' not to provide details of related party transactions with other Group companies, as the Company financial statements are presented together with the consolidated Group financial statements.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of The Carphone Warehouse Group PLC ("Company") will be held at the Ramada Ealing, Ealing Common, London, W5 3HN on 26 July 2007 at 11am to consider the following business:

Ordinary Resolutions

1. To receive the accounts and reports of the Directors and Auditors for the period ended 31 March 2007.
2. That the Remuneration Report set out in the Annual Report 2007 be approved.
3. That a final dividend of 2.25 pence per ordinary share for the period ended 31 March 2007 be declared.
4. That Adrian Martin be re-elected as a Director.
5. That Sir Brian Pitman be re-elected as a Director.
6. That David Grigson be elected as a Director.
7. That Deloitte & Touche LLP be re-appointed as auditors of the Company and to authorise the Board to determine the auditors' remuneration.

Special Resolutions

8. That articles 94.2 to 94.6 (inclusive) of the Company's Articles of Association which relates to the Directors borrowing powers be deleted.
9. That the adoption and inclusion of a new article 152 in the Company's Articles of Association as set out in the draft amended Articles of Association produced to the meeting and initialled by the Chairman be approved.
10. That the Directors be generally and unconditionally authorised for the purpose of section 80(1) of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act), such authority being limited to the allotment and issue of relevant securities up to an aggregate nominal amount of £298,762 being the aggregate nominal amount of one third of the issued share capital of the Company as at 31 March 2007 and shall expire on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual General Meeting in 2008 and provided that the Directors may, at any time before such authority expires, make offers, agreements or other arrangements which would or might require such securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer, agreement or other arrangement as if such authority had not expired.
11. That the Directors be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred by resolution 10 as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:

    11.1 The allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares of 0.1p each in the capital of the Company ("Ordinary Shares") where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but including, in connection with such an issue, the making of such arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or problems under the laws of any territory or the requirements of any regulatory body or any stock exchange; and

    11.2 The allotment (other than pursuant to the powers conferred pursuant to resolution 11.1) of equity securities up to an aggregate nominal amount equal to £44,814 being five per cent of the aggregate nominal amount of the issued share capital of the Company as at 31 March 2007 and shall expire on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual General Meeting in 2008 save that the Directors may, at any time before such expiry, make offers, agreements or other arrangements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer, agreement or other arrangements as if the power conferred hereby had not expired.

12. That the Company be and is hereby unconditionally and generally authorised for the purposes of section 166 of the Act to make market purchases (as defined in section 163 of the Act) of Ordinary Shares provided that:

    12.1 The maximum aggregate number of shares hereby authorised to be purchased is 89,628,492;

    12.2 The minimum price which may be paid is the 0.1p nominal value of each share;

    12.3 The maximum price (exclusive of expenses) which may be paid for such shares is an amount no more than 5% above the average of the middle market quotations of the Company's Ordinary Shares derived from the daily official list of the London Stock Exchange PLC for the five business days immediately before the day on which the purchase is made;

    12.4 This authority shall expire on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual General Meeting in 2008; and

    12.5 The Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

By order of the Board

T.S.Morris
Company Secretary

4 June 2007

Registered Office
1 Portal Way
London
W3 6RS

Explanatory Notes to the Resolutions

Remuneration Report
Resolution 2
The Company is required under the Directors' Remuneration Report Regulations 2002 ("Regulations") to produce a remuneration report for shareholders which must comply with the Regulations, be approved by the Board and filed with the Registrar of Companies. The Report must also be approved by the shareholders.

Dividend
Resolution 3
Final dividends must be approved by shareholders but must not exceed the amount recommended by Directors. If the meeting approves the final dividend it will be paid out in accordance with the Financial Calendar set out on page 75 of the Annual Report.

Directors
Resolutions 4, 5 and 6
Adrian Martin and Sir Brian Pitman are required to retire by rotation and to stand for re-election every three years pursuant to the Company's Articles of Association adopted on 13th July 2000. David Grigson was appointed as a Director with effect from 24 April 2007. The Articles require that all Directors appointed by the Board are elected by the Company's shareholders at the Annual General Meeting following their appointment. No Director may vote in respect of his own appointment. Biographical details of those Directors seeking election and re-election are given on page 21 of the Annual Report and will be available at the meeting.

Auditors
Resolution 7
The Company is required to appoint auditors at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. This resolution is recommended by the Audit Committee and proposes the re-appointment of the Company's existing auditors Deloitte & Touche LLP, and follows good practice in giving authority to the Audit Committee to determine their remuneration.

Directors' Borrowing Power
Resolution 8
These borrowing limits were inserted in the Company's Articles of Association at the time of the Company's flotation on the London Stock Exchange in July 2000. The Board believes that these restrictions are no longer required and potentially too restrictive given the Company's history, size and nature and that it is in the Company's best interests for them to be deleted.

Electronic Communication
Resolution 9
Resolution 9 proposes to amend the Company's Articles of Association to enable the Company to benefit from broader powers under the Companies Act 2006 (the "2006 Act") in relation to the sending or supplying of documents or information by or to the Company in electronic form (including, without limitation, via a website). The provisions of the 2006 Act, which were brought into force on 20 January 2007, permit the use of electronic communications between shareholders and the Company such that documents or information may be sent or supplied via the Company's website to shareholders who have not either, requested a hard copy of the relevant document or information or provided an e-mail address to which the document or information can be sent. The Board believes it is in the best interests of the Company to take advantage of these provisions and the Company intends to make use of these provisions in the future in order to facilitate communications between the Company and its shareholders and to reduce the current considerable cost associated with sending paper copies of the documents to a large number of shareholders.

The proxy card accompanying this notice includes an election form which asks shareholders to decide (i) if they wish to continue to receive documents or information in paper form (ii) to provide an e-mail address to which notifications that documents or information are available on the website can be sent or (iii) to take no action and view any documents or information via the Company's website. Shareholders should note that if they do not respond to the election form, they will be taken to have agreed that the Company may send or s upply documents or information by means of its website. However, where shareholders are provided with documents by means of the Company's website, they will be notified by the Company whenever a relevant document has been made available on that website.

A copy of the existing Articles of Association, and a copy marked to show the differences between the existing Articles of Association and the Articles of Association as proposed to be amended pursuant to resolutions 8 and 9, will be available for inspection during normal business hours on Monday to Friday each week (public holidays excepted) at the Company's Registered Office at 1 Portal Way, London, W3 6RS from the date of this document up to and including the date of the Annual General Meeting and at the place of the Annual General Meeting from 10.45am until the close of the meeting.

Allotment of shares
Resolutions 10 and 11
These resolutions renew the Directors' authority to issue relevant securities up to an aggregate nominal amount of £298,762 being a sum equal to one third of the issued ordinary share capital of the Company at 31 March 2007. The Directors will also be able to make issues for cash on a non pre-emptive basis. The proposed limit of £44,814 represents 5% of the nominal amount of the issued ordinary share capital as at 31 March 2007. The Company had 896,284,916 ordinary shares of 0.1p each in issue at 31 March 2007 and the Company's authorised share capital is 1,500,000,000 ordinary shares of 0.1p each.

The above limits are in line with the guidelines issued by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

Repurchase of shares
Resolution 12
This grants the Company authority to purchase its own shares up to a maximum amount of 89,628,492 until the Annual General Meeting in 2008. The Companies Act 1985 permits a company to purchase its own shares provided that the purchase has been authorised by the Company in a general meeting. It is common practice for listed companies to seek such authority and the Directors consider that it is prudent to seek such authority at the Annual General Meeting.

The amount represents 10% of the ordinary shares in issue as at 31 March 2007. The authority is limited to the stated upper and lower prices payable for the shares which reflects the requirements of the UK Listing Authority. As at 4 June 2007 there were 84,010,722 outstanding options granted and unexercised under all share option schemes operated by the Company which, if exercised, would represent 9.4% of the existing issued ordinary share capital of the Company. If this authority to repurchase was exercised in full, such options would represent approximately 10.4% of the issued share capital at such date. The Directors would only propose to make share purchases where the expected effect would be to increase earnings per share and having reviewed the overall financial position of the Company, such purchases were considered to be in the best interests of the shareholders generally.

General notes
1. Eligibility to attend
The Company specifies that only those shareholders on the register of members as at 6pm on 24 July 2007 are entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6pm on 24 July 2007 shall be disregarded in determining the right of any person to attend or vote at the meeting.

A copy of the Company's existing Articles of Association, and a copy marked to show the differences between the existing Articles of Association and the Articles of Association as proposed to be amended pursuant to resolutions 8 and 9, will be available for inspection during normal business hours on

Explanatory Notes to the Resolutions continued

Monday to Friday each week (public holidays excepted) at the Company's Registered Office at 1 Portal Way, London, W3 6RS from the date of this document up to and including the date of the Annual General Meeting and at the place of the Annual General Meeting from 10.45am until the close of the meeting.

2. Proxy voting

A shareholder who is entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy, a form of which is enclosed, and any power of attorney or the authority under which it is signed or a duly certified copy thereof must be lodged with the registrars of the Company, Lloyds TSB, whose details are found on page 21 of the Annual Report, before 11am on 24 July 2007. Shareholders who return completed proxy voting forms may still attend the meeting instead of their proxies and vote in person if they wish. In the event of a poll in which the shareholder votes in person, his/her proxy votes lodged with the Company will be excluded.

3. Electronic voting

Instructions for registering your votes electronically are appended to the form of proxy enclosed with this notice.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

4. Admission

If you propose to attend the meeting, please detach and bring with you the attendance slip attached to the form of proxy. You will be asked to show this at the entrance and not having it available could delay your admission.

5. Proof of identity

Shareholders and participants may also be required to provide proof of identity. If you have been appointed as a shareholder's proxy please make this fact known on admission to the Lloyds TSB personnel who will direct you to a proxy helpdesk.

6. Directions

Directions to the address of the meeting are as follows:

By Road

From M4/Heathrow

Leave the M4 at junction 2, at the next roundabout take the first exit to join the North Circular (A406) towards Ealing. Continue on the A406 (Gunnersbury Avenue). Turn right onto the A4020 (Uxbridge Road). The hotel is located on the left hand side.

From M40

Follow A40 towards Central London At the Hanger Lane Gyratory join the A406 towards Ealing. Continue in the A406 (Hanger Lane). Turn left onto the A4020 (Uxbridge Road). The hotel is located on the left hand side.

From Central London A40 (Westbound)

Take the A40 towards Oxford. At the Hanger Lane Gyratory, join the A406 towards Ealing. Continue on the A406 (Hanger Lane). Turn left onto the A4020 (Uxbridge Road). The hotel is located on the left hand side.

Car Parking

Chargeable guest parking.

By Train/Underground

Ealing Common is on the Piccadilly and District Lines and is the nearest tube station. Ealing Broadway is on the Central and District Lines and is also served by trains from London Paddington, Reading and Maidenhead.

7. Information available for inspection

The following information is available for inspection at the registered office of the Company (weekends and public holidays excluded). It will also be available for inspection at the place of the Annual General Meeting from 10am on the day of the meeting until the conclusion of the meeting:

- Memorandum and Articles of Association of the Company;
- Copies of the Directors' service contracts and letters of appointment;
- Register of Directors' interests;
- Biographical details of those Directors being elected and re-elected.

8. Enquiries

If you have any questions regarding the meeting our Public Relations department will be pleased to help. Their contact number is: 0845 604 1207.

9. Asking questions at the meeting

During the meeting the Chairman will give shareholders and eligible participants the opportunity to ask questions.

10. Special needs

Facilities are available for those who are in wheelchairs and anyone wishing to use any of these facilities should contact a member of the hotel staff.

11. Safety

In the event of a fire or other emergency an alarm will sound and an announcement will be made. If asked to evacuate the building please follow the instructions of the hotel staff.

12. Medical care

If you need medical attention while attending the Annual General Meeting please contact a member of the hotel staff who will obtain medical assistance.

13. Smoking

Smoking will not be permitted in the auditorium.

Financial Calendar

	Key dates
Results announcement	5 June 2007
Ex-dividend date	4 July 2007
Record date	6 July 2007
Dividend payment date	3 August 2007
Interim results announcement	8 November 2007

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